

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

ACC

10000/109/876

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

10000/109/876

ALLIED ANTI-INFLATION COMMITTEE
MAY 1944 - MAY 1945

A/Ex. C.:

- 1) You may wish to see folio 17 for information.
- 2) Instead of signing Mr. Antolini's transmittal letter the Chief Commissioner conferred with the Prime Minister over the inflationary trend of wages and after discussing with him the purposes of our Advisory Anti-inflation Board decided to make this interim report available to the Prime Minister in the form of an Aide Memoire, - the Prime Minister would be glad to receive the Aide Memoire.

- 3) To note distribution.

9 April 45.

11/4 Mord. 7

49

30.

Ex. Com.

You should glance at page 15 - Terms of Reference for Anti-Inflation Board. Also page 21 - Aide Memoire on Advisory Anti-Inflation Board, which was forwarded to P.M. Bonomi. At 25, please see letter to G-5 setting out the suggested economic boundary line and its implications, and then at 28 the instruction, following approval from AFHQ, to Northern Regions on this boundary line which is slightly amended at 29.

C.S.O.

25 April 45.

31

C.S.O.

News from K. North does not reflect a great difference in standards & wages between N.V.S. - nor is the road block system effective. E.C. discussed yesterday & was not hopeful. Let us hear pp 26-29 typed in a readable form & then I will discuss with V.P. Econ Sec. 3823

SEE
FOWES
32-35

178/26/4

37

C. 11 - implementing this policy - ha

785017

11/4 Hubert. 7

69

Ex. Com.

30.

You should glance at page 15 - Terms of Reference for Anti-Inflation Board. Also page 21 - Aide Memoire on Advisory Anti-Inflation Board, which was forwarded to P.M. Bonomi. At 25, please see letter to G-5 setting out the suggested economic boundary line and its implications, and then at 28 the instruction, following approval from AFHQ, to Northern Regions on this boundary line which is slightly amended at 29.

25 April 45.

31

C.S.O.

News from the North does not reflect a great difference in standards & wages between N.V.S. - nor in the road block system effective. C.C. discussed yesterday & was not hopeful. Let us hear from them. I will discuss with V.P. Econ Sec. 3827

SEE FORMS 32-35

WV 26/4

37

So 41 - implementing the policy - has been signed

St. 1/5.

6th.

Please see form 38

4

For 26/4

Major

5

C.S.O. To see

P 4

encl 27/10

8

CSO: Res see exchange of signals pogo 4 & 7

encl 20/11

9.

Col.

You will see from 6-7 that AF 4a have forwarded the report on Status of Anti Inflation Committee to CES & B.C.

Col. has seen. EL 22/11

EL 20/11

105

CSO: to see folio 10 for info. JCB 20/11

I do not like pencilled material JCB 20/11

13

TO: C.S.O.

1. For COS to see folio 12 for information that all precautions are being taken by State and Treasury Depts (US) to avoid unauthorised releases of such information on new currency. Folio 10 refers.
2. Also first and last sentence of cable possibly refer to other subjects inquired of.

8 Feb 45.

Seen by Col. JCB
on 22/11
Major.

785017

Col.

You will see from 6-7 that AFH have forwarded the report on status of Anti-Inflation Committee to CES & BCS.

Col. has seen.

22/11

20/11

185

to see folios for info JCR 20/11

I do not like pencilled minutes

TRC 22/11

JCR 20/11

13

TO: C.S.O.

1. For COS to see folio 12 for information that all precautions are being taken by State and Treasury Depts (US) to avoid unauthorised releases of such information on new currency. Folio 10 refers.
2. Also first and last sentence of cable possibly referring to other subjects inquired of.

8 Feb 45.

Seen by COS JCR Major.

on 9/12.

A/Ex. C.:

16.

You may wish to see for info the terms of reference of this new Advisory Anti-Inflation Board as side-lined in red at folio 15.

6 April 45.

6/4/45

noted 24/4.

JCR Major

785017

SECRET

FX 84398
MAY 241840B

E/2326
MAY 251840B
PRIORITY

FROM : AFHQ SIGNED SACMED CITE FHGEG

TO : 5 ARMY, 8 ARMY, IV CORPS, MAAF, PBS, DISTONE, INFO, 15 ARMY GP
ALCOM, DISTWO, DISTHREE, AFIRS, RAAG.

SECRET.

Economic boundary line established by para 3 FX 6482 of 22
April FX 65919 of 26 April FX 73836 of 11 May will be abolished effective
0001 hrs 28 May. Accordingly road blocks will be discontinued. This
action does not affect controls of prices and wage differentials which
will remain applicable until modified under normal procedure.

To ALCOM. Your 8210 of 23 May refers.

Dist

Info-Action : Econ Sec 2
Info : A/President
Chief Commr
C.A. Sec
P. Safety S/O
Tn S/O 2
File

3825
Original file 5215/EC

SECRET

4609

EXTRACT
from
MINUTES OF A MEETING OF THE SAC's ECONOMIC SUB COMMITTEE
dated
22 MAY 1945
=====

" 3. REPORT ON CURRENT STATUS OF ECONOMIC BARRIER BETWEEN THE NORTH AND THE SOUTH.

The Committee had before it a paper prepared by G-5 summarizing the status of the economic barrier which stated that the purpose of the barrier was to maintain reportedly lower prices and wages in Northern Italy, through the establishment of police road blocks, during the period immediately following occupation; and pending clarification of the economic situation in the North, recommended that no action be taken to abolish the barrier.

GENERAL SPOFFORD amplified the paper by observing that it was not considered advisable to make a decision regarding the necessity for the barrier until a report had been received from A.C. summarizing the current situation in the North.

X ADMIRAL STONE recommended that the barrier be abolished on 28 May. He requested that the existing instructions respecting prices and wages in the North remain in effect. GENERAL ROBERTSON asked COLONEL SHELDON whether the extension of AFLRS authority to the North might not be made to coincide with the abolition of the barrier, which would place wages and prices under AFLRS control. GENERAL HAMLEN and COLONEL SHELDON agreed that this could be done. ADMIRAL STONE said that the A.C. felt the movement of population North and South should be permitted, subject to military convenience, but Fifth Army has so far refused to recognise Questura passes issued to civilians by Italian authorities.

MR. ANTOLINI, recently returned from an inspection of North Italy, reported that in general supplies are more abundant and wages and prices are lower than in the South. The barrier, has served its intended purpose, largely through its psychological effect, which was to prevent speculation and rapid inflation. Wages and prices will be raised as circumstances require, with established military controls acting as a retarding factor. It is anticipated that certain inflation will take place in the North with a somewhat opposite deflationary effect in the South, as a consequence of the draining from the North of goods and services.

GENERAL ROBERTSON, referring to the movement of personnel to and from 5 Army area, stated :

(a) 5th Army has authority to restrict the free movement of goods and personnel only insofar as such movement affects operational requirements. At present 5th Army have two primarily operational responsibilities :

(1) The activity along the Italian-French border.

(2) Collecting enemy personnel.

382

(over) /.....

- 2 -

(b) If it will prove of assistance to A.C., a signal will be dispatched to 5 Army requesting they honor Questura passes insofar as civilian travel does not restrict operational requirements. ADMIRAL STONE requested that this signal be withheld pending reply from a signal to 5 Army as to whether Questura passes will be honored. GENERAL ROBERTSON agreed.

THE CHIEF ADMINISTRATIVE Officer Directed :

That G-5, in conjunction with the A/CAO, take action as at (X) above. "

785017

46090
HEADQUARTERS ALLIED COMMISSION
APO 394
CIVIL AFFAIRS SECTION.

Ref: 5/8E/CA

3 May 1965

SUBJECT: Economic Line

MAY 4 RECD

TO : V.P. Economic Section.

Referring to discussion of Anti Inflation Advisory Board yesterday, it is suggested that:-

- 1) Economic Section prepare a form of "Transport of Merchandise Permit" for use in crossing the Economic Line; such form to be approved by P.S. Sub-Commission before being printed.
- 2) Economic Section to be responsible for distribution to relevant H.Q.s of these permits when printed together with instructions for their use.
- 3) Permits be prepared by Economic Section or officers of Supply Division in Regions but submitted to P.S. Sub-Commission or P.S. Division in Regions for signature before issue.
- 4) All persons to whom Transport of Merchandise Permits are given will also require to be in possession of a Movement of Civilians Pass issued under Exec. Memo 77 when going from South to North.
- 5) It is requested that you ask A.F.H.Q. (if this has not already been done) to instruct 1 and 2 District and P.B.S. to co-operate in forming road blocks, now that armies are moving forward so rapidly.

H. A. Benham 6/6/65

fu G.R. UPJOHN Brigadier
VP. C.A. Section

Copies to:

Exec. Commissioner
P.S. Sub-Commission.

(Mr. H. A. Benham)
(Mr. A. H. Benham)

see 1738
35/2/65

HEADQUARTERS ALLIED COMMISSION

APO 394

Office of the Executive Commissioner

36

Ref: 4609/36/30.

26 April 1945.

SUBJECT: Economic Boundary Line.

TO : Economic Section.

34

Our telegram 5920 of 24 April.

- (1) Does this require amendment in view of MEDICI's information?
- (E) We should ask Army and Regional Commissioners to send us information concerning prices and wages current on 3 April.

REL/JG.

(See M 37)

M. S. LUSH

Brigade
Executive Committee

3822

28/4

BU cl
noted
24/4/45

COPY.

(38)

TO : ABHQ G-5.

FROM : ALCOM

5979

24 Apr 45

ROUTINE,

SECRET.

1. Economic boundary line is subject. Reference your FX 64182 of 22 April FHGEG.
2. Based on request of IV Corps recommend description of economic boundary line be changed to read "Economic boundary line will be Northern boundaries of RAVENNA, FIRENCE, PISTOIA and LUCCA Provinces and the Northern and Western boundary of APUANIA Province".
3. Request you concur and inform all addresses of FX 64182.

(Sgd) L.D.DENSMORE. Col.

3021

785017

C O P Y.

TO : FOR ACTION - CIVIL AFFAIRS SECTION 15 ARMY GROUP
SCAO 5 Army
G-5, IV Corps
AMG 8 Army
AMG Emilia
AMG Umbria-Marche
AMG Toscana

FOR INFO - AMG Liguria
AMG Piemonte
AMG Lombardia
AMG Venezia (Main and Advance)
2 District
3 District
MAAF
PBS
G-5, AFHQ.

FROM : ALCOM CITE ACECO

5920

24 April 1945

~~SECRET~~

PRIORITY

ECONOMIC SECTION.

SECRET.

Subject is economic control Northern Italy.

1. Due to the wide variations between price and wage scales reported from Northern Italy and those in Southern Italy, AFHQ has approved effective immediately a policy which separates the two economies for an initial period.
2. Economic boundary line will be northern boundaries of RAVENNA, FIRENZE, PISTOLA and LUCCA Provinces, and the Northern and Western boundary of APUANIA Province.
3. Wide price differentials will make smuggling and black marketing across the economic boundary profitable for both civilian and military vehicles (Allied and Italian). AFHQ by signal FX 64182 of 22 April has directed Allied military formations to establish police road blocks (check posts) on all roads crossing the economic boundary as set forth in para 2 to examine both northbound and southbound traffic for illegal cargo. Road blocks will be staffed jointly by military police (to search military vehicles) and Carabinieri or Guardi di Finanze (to search civilian vehicles). It is

INFO COPY ON 4026/EC

-2-

33

understood that road blocks in areas under United States control will conform in general to SOP announced in PMG circular No.1. Military formations have been requested by AFHQ to cooperate closely with ALCOM in establishing an effective system of check and blocks.

4. The following types of cargo will be subject to search, movement of which across economic boundary ~~will~~ will not be permitted except under procedures to be established by ALCOM/AMG. (a) Metals, ferrous, nonferrous, fabricated and nonfabricated; (b) building materials; (c) plywood; (d) electrical materials; (e) industrial gases and chemicals; (f) hemp, raw, tow and manufactured products including rope and canvas; (g) leather and all leather articles; (h) hides and skins; (i) greases and solvents; (j) textile fibers - cotton, silk, wool and synthetic; (k) matches; (l) phosphate rock; (m) ~~leather~~ tanning materials; (n) cellulose for paper manufacture; (o) carbon bisulphide; (p) soap; (q) sulphuric acid; (r) sulphur rock and processed sulphur; (s) solid fuels; (t) newsprint and other paper; (u) petroleum products, oils, lubricants and containers therefor; (v) food and agricultural products.

5. General order and detailed directives are being prepared. In the meantime the following general policies will be effective North of the economic boundary superseding all previous instructions. (a) prices of all nonimported items on which there was an official price in the North as of 3 April are to be held or rolled back to that price as maximum. Other essential nonimported items on which there was no official northern prices as of 3 April should be priced on basis of the normal price relationship to other items during May 1938. (b) Imported commodities other than food will be priced at landed cost plus cost of distribution. (c) Wheat and minor cereals will be amassed at the 3 April existing price. (d) All food imported or indigenous to the North must be priced at 3 April prices. (e) A price scale for medical supplies will be issued shortly. In the interim apply landed cost plus cost of distribution. 4813 (f)

-3-

(32)

All transport rates will be fixed at level for entire northern area scale to be issued soon. In the interim apply 50% off 30 January 1945 ENAC tariff charge for present Italian Government territory. (g) Rates for all public utilities service will be fixed at charges existing at 3 April. Changes are forbidden without prior approval by AMG Regional procedure to be established.

6. The following wage policies will apply: (a) For private industry wages in force on 3 April will be ~~maintained~~ recognised as appropriate. Right of negotiation for wage changes at later dates is recognized but application or change is forbidden without prior approval by AMG Regional procedure to be established. (b) State employees found in the North will be paid at rates applicable 3 April. Those transferred from the South will be paid in cash in North at 3 April northern rates and credited in ROME for the difference between the northern and southern rates. Carabinieri will be paid in cash at southern rates whether transferred from South or taken on in the North. (d) Both in private industry and in state employment there will be no repeat no automatic application of cost of living bonus or other wage increase decrees or changes in force in South.

7. Instructions with respect to wages for civilians employed by Allied forces are being issued by Allied Force Local Resources Section, Ref.No. LRS/601A of 23 April.

(Sgd) L.D. DENSMORE.

ADD to Para 4.

~~Wanda~~^(w) Rubber, tires and all rubber products: (x) motor transport parts and accessories; (y) motor and other vehicles and all animals customarily used for transport purposes except those specifically authorized to cross the boundary.

3818

AFHQ C-5

5979

24 APRIL 1945

ROUTINE

~~SECRET~~ PD

PARA ONE PD ECONOMIC BOUNDARY LINE IS SUBJECT PD REFERENCE YOUR FOX XRAY
SIX FOUR ONE EIGHT TWO OF TWENTY TWO APRIL FOX HQ GEORGE EASY GEORGE PD
PAREN TO AFHQ GEORGE FIVE FROM HQ ALCEM CITE ACECO PAREN

PARA TWO PD BASED ON REQUEST OF FOURTH CORPS RECOMMEND DESCRIPTION OF
ECONOMIC BOUNDARY LINE BE CHANGED TO READ QUOTE ECONOMIC BOUNDARY LINE
WILL BE NORTHERN BOUNDARIES OF RAVENNA CMA FIRENZE CMA PISTOIA AND LUCCA
PROVINCES AND THE NORTHERN AND WESTERN BOUNDARY OF APUANIA PROVINCE UNQUOTE PD
PARA THREE PD REQUEST YOU CONCUR AND INFORM ALL ADDRESSEES OF FOX XRAY SIX FOUR
ONE EIGHT TWO PD

See clear version at (31)

ECONOMIC SECTION

551

3817

L.D. DENSMORE? COL.
(sgd) L. D. DENSMORE

785017

28

TO: FOR ACTION CIVIL AFFAIRS SECTION 15 ARMY GROUP SCAD 5 ARMY G-5 IV CORPS
 AMG 8 ARMY AMG EMILIA AMG UMBRIA-MARCHE AMG TOSCANA
 FOR INFORMATION AMG LIGURIA AMG PIEMONTE AMG LOMBARDIA AMG VENEZIA PAREN 8 ARMY
 MAIN FOR VENEZIA REGION ADVANCED AND 8 ARMY REAR FOR VENEZIA REGION MAIN PAREN DIST
 DISTWO DISTHREE MAAP PEBASE G-5 AFHQ

5920

ALCOM SITE ACOM

5920

24 APR 45

PRIORITY

ECONOMIC SECTION

~~SECRET~~ PD

SUBJECT IS ECONOMIC CONTROL NORTHERN ITALY PD

PAREN TO FOR ACTION CIVIL AFFAIRS SECTION 15 ARMY GROUP CMA SCAD 5 ARMY CMA G-5
 IV CORPS CMA AMG 8 ARMY CMA AMG EMILIA CMA AMG UMBRIA-MARCHE CMA AMG TOSCANA
 FOR INFORMATION AMG LIGURIA CMA AMG PIEMONTE CMA AMG LOMBARDIA CMA AMG VENEZIA
 PAREN 8 ARMY MAIN FOR VENEZIA REGION ADVANCED AND 8 ARMY REAR FOR VENEZIA REGION MAIN
 PAREN CMA DISTONE CMA DISTWO CMA DISTHREE CMA MAAP CMA PEBASE CMA G-5 AFHQ
 PAREN

PARA ONE PD DUE TO THE WIDE VARIATIONS BETWEEN PRICE AND WAGE SCALES REPORTED FROM
 NORTHERN ITALY AND THOSE IN SOUTHERN ITALY ALLIED FORCE HEADQUARTERS HAS APPROVED
 EFFECTIVE IMMEDIATELY A POLICY WHICH SEPARATES THE TWO ECONOMIES FOR AN INITIAL PERIOD
 PARA TWO PD ECONOMIC BOUNDARY LINE WILL BE NORTHERN BOUNDARIES OF RAVENNA CMA
 FIRENZE CMA PISTOIA AND LUCCA PROVINCES AND THE NORTHERN AND WESTERN BOUNDARY OF
 APUANIA PROVINCE PD

SEE CLEAR VERSION AT (34)

PARA THREE PD WIDE PRICE DIFFERENTIALS WILL MAKE SMOUGLING AND BLACK MARKETING ACROSS
 THE ECONOMIC BOUNDARY PROFITABLE FOR BOTH CIVILIAN AND MILITARY VEHICLES PAREN ALLIED
 AND ITALIAN PAREN PD ALLIED FORCE HEADQUARTERS BY SIGNAL FOX KRAY SIX FOUR ONE EIGHT
 TWO OF TWENTYTWO APRIL HAS DIRECTED ALLIED MILITARY FORMATIONS TO ESTABLISH POLICE ROAD
 BLOCKS PAREN CHECK POSTS PAREN ON ALL ROADS CROSSING THE ECONOMIC BOUNDARY AS SET
 FORTH IN PARA TWO TO EXAMINE BOTH NORTHBOUND AND SOUTHBOUND TRAFFIC FOR ILLEGAL CARGO
 ROAD BLOCKS WILL BE STAFFED JOINTLY BY MILITARY POLICE PAREN TO SEARCH MILITARY VEHICLES
 PAREN AND CARABINIERI OR GUARDIA DI FINANZA PAREN TO SEARCH CIVILIAN VEHICLES PAREN PD

3813

- 2 -

IT IS UNDERSTOOD THAT ROAD BLOCKS IN AREAS UNDER UNITED STATES CONTROL WILL CONFORM IN GENERAL TO SOP ANNOUNCED IN HMG CIRCULAR NUMBER ONE PD MILITARY FORMATIONS HAVE BEEN REQUESTED BY ALLIED FORCE HEADQUARTERS TO COOPERATE CLOSELY WITH ALOOM IN ESTABLISHING AN EFFECTIVE SYSTEM OF CHECK AND BLOCKS PD

PARA FOUR PD THE FOLLOWING TYPES OF CARGO WILL BE SUBJECT TO SEARCH/MOVEMENT OF WHICH ACROSS ECONOMIC BOUNDARY WILL NOT BE PERMITTED EXCEPT UNDER PROCEDURES TO BE ESTABLISHED BY ALOOMSLANT AMG PD ABLE PD METALS CMA FERROUS CMA NONFERROUS CMA FABRICATED AND NONFABRICATED SEMICOLON BAKER PD BUILDING MATERIALS SEMICOLON CHARLIE PD PLYWOOD SEMICOLON DOG PD ELECTRICAL MATERIALS SEMICOLON EASY PD INDUSTRIAL GASES AND CHEMICALS SEMICOLON FOX PD HEMP CMA RAW CMA TOW AND MANUFACTURED PRODUCTS INCLUDING ROPE AND CANVASS SEMICOLON GEORGE PD LEATHER AND ALL LEATHER ARTICLES SEMICOLON HOW PD HIDES AND SKINS SEMICOLON ITEM PD GREASES AND SOLVENTS SEMICOLON JIG PD TEXTILE FIBERS DASH COTTON CMA SILK CMA WOOL AND SYNTHETIC SEMICOLON KING PD MATCHES SEMICOLON LOVE PD PHOSPHATE ROCK SEMICOLON MIKE PD TANNING MATERIALS SEMICOLON NAM PD CELLULOSE FOR PAPER MANUFACTURE SEMICOLON ORGE PD CARBON BISULPHIDE SEMICOLON PETER PD SOAP SEMICOLON QUEEN PD SULPHURIC ACID SEMICOLON ROGER PD SULPHUR ROCK AND PROCESSED SULPHUR SEMICOLON SUGAR PD SOLID FUELS SEMICOLON TARE PD NEWSPRINT AND OTHER PAPER SEMICOLON UNCLE PD PETROLEUM PRODUCTS CMA OILS CMA LUBRICANTS AND CONTAINERS THEREFOR SEMICOLON VICTOR PD FOOD AND AGRICULTURAL PRODUCTS PD

PARA FIVE PD GENERAL ORDER AND DETAILED DIRECTIVES ARE BEING PREPARED PD IN THE MEANTIME THE FOLLOWING GENERAL POLICIES WILL BE EFFECTIVE NORTH OF THE ECONOMIC BOUNDARY SUPERSEDING ALL PREVIOUS INSTRUCTIONS PD ABLE PD PRICES OF ALL NONIMPORTED ITEMS ON WHICH THERE WAS AN OFFICIAL PRICE IN THE NORTH AS OF THREE APRIL ARE TO BE HELD OR ROLLED BACK TO THAT PRICE AS MAXIMUM PD OTHER ESSENTIAL NONIMPORTED ITEMS ON WHICH THERE WAS NO OFFICIAL NORTHERN PRICES AS OF THREE APRIL ³⁸¹⁵ WOULD BE PRICED ON BASIS OF THE NORMAL PRICE RELATIONSHIP TO OTHER ITEMS DURING MAY ONE NINE THREE EIGHT PD BAKER PD IMPORTED COMMODITIES OTHER THAN FOOD WILL BE PRICED AT LANDED COST PLUS COST OF DISTRIBUTION PD CHARLIE PD WHEAT AND WHEAT CEREALS WILL BE AMASSED AT THE THREE APRIL EXISTING PRICE PD DOG PD ALL FOOD IMPORTED OR INDIGENOUS TO THE NORTH

- 3 -

MUST BE PRICED THREE APRIL PRICES PD RARY PD PRICE SCALE FOR MEDICAL SUPPLIES
WILL BE ISSUED SHORTLY PD IN THE INTERIM APPLY LANDED COST PLUS COST OF DISTRIBUTION
PD FOX PD ALL TRANSPORT RATES WILL BE FIXED AT LEVEL FOR ENTIRE NORTHERN AREA
SCALE TO BE ISSUED SOON PD IN THE INTERIM APPLY FIFTY PERCENT OFF THIRTY JANUARY
ONE NINE FOUR FIVE EMAC TARIFF CHARGE FOR PRESENT ITALIAN GOVERNMENT TERRITORY PD
GEORGE PD RATES FOR ALL PUBLIC UTILITIES SERVICE WILL BE FIXED AT CHARGES EXISTING
AT THREE APRIL PD CHARGES ARE FORBIDDEN WITHOUT PRIOR APPROVAL BY AMG REGIONAL
PROCEDURE TO BE ESTABLISHED PD

PARA SIX THE FOLLOWING WAGE POLICIES WILL APPLY COLON ABLE PD FOR PRIVATE INDUSTRY
WAGES IN FORCE ON THREE APRIL WILL BE RECOGNIZED AS APPROPRIATE PD RIGHT OF
NEGOTIATION FOR WAGE CHANGES AT LATER DATES IS RECOGNIZED BUT APPLICATION OF CHANGE
IS FORBIDDEN WITHOUT PRIOR APPROVAL BY AMG REGIONAL PROCEDURE TO BE ESTABLISHED PD
BAKER PD STATE EMPLOYEES FOUND IN THE NORTH WILL BE PAID AT RATES APPLICABLE THREE
APRIL PD THOSE TRANSFERRED FROM THE SOUTH WILL BE PAID IN CASH IN NORTH AT THREE
APRIL NORTHERN RATES AND CREDITED IN ROME FOR THE DIFFERENCE BETWEEN THE NORTHERN
AND SOUTHERN RATES PD CARABINIERI WILL BE PAID IN CASH AT SOUTHERN RATES WHETHER
TRANSFERRED FROM SOUTH OR TAKEN ON IN THE NORTH PD DGC PD BOTH IN PRIVATE INDUSTRY
AND IN STATE EMPLOYMENT THERE WILL BE NO REPEAT NO AUTOMATIC APPLICATION OF COST OF
LIVING BONDS OR OTHER WAGE INCREASE DECREE OR CHANGES IN FORCE IN SOUTH PD
PARA SEVEN PD INSTRUCTIONS WITH RESPECT TO WAGES FOR CIVILIANS EMPLOYED BY ALLIED
FORCES ARE BEING ISSUED BY ALLIED FORCE LOCAL RESOURCES SECTION CMA REFERENCE NUMBER
LRS BLANT SIX ZERO ONE ABLE OF TWENTYTHREE APRIL PD

DISTRIBUTION: (BY ELS)

AMG LIGURIA
AMG PIEMONTE
AMG LOMBARDIA

ADD TO PARA FOUR:

WOODS PD RUBBER CMA TIRES AND ALL RUBBER PRODUCTS SEMICOLON XRAY PD MOTOR

TRANSPORT PARTS AND ACCESSORIES SEMICOLON YALTA PD MOTOR AND OTHER VEHICLES

AND ALL ANIMALS CUSTOMARILY USED FOR TRANSPORT PURPOSES EXCEPT THOSE SPECIFICALLY
AUTHORIZED TO CROSS THE BOUNDARY PD

L. D. DENSMORE

3812

785017

Ref: 4609/EC.

NET/ard
13 April 1945

Subject: Advisory Anti-Inflation Board Report for North Italy
To : G-3 Section, Allied Force Headquarters

1. I am forwarding a copy of the Advisory Anti-Inflation Board report on North Italy, together with a letter on that subject from the Acting Vice President, Economic Section. The recommendations made are, in effect, that a separate economy line be established north of the line of the Appenines and that movement of goods and services across that line be rigidly controlled. This is considered highly desirable because of the extreme divergence of prices and wages in the North as compared to the South. The plan proposed by the Economic Section has the concurrence of the Italian Government and of the British and American embassies. The Commission has no expectation that this separate economy can be maintained for any great length of time. It is admittedly a temporary measure designed to cushion the impact of the inflationary economy of the South against the low wage and price levels presently existing in the North.

2. The boundary line suggested is generally that of the Appenines and cuts across the main supply routes of the Armies now operating in the Po valley. It will be impracticable, therefore, to establish any effective control without the assistance of military police. It is suggested that the Army straggler line might be so fixed as progressively to coincide with this boundary and that combined Allied Military Police and Italian Carabinieri check posts could be established to implement the control. I would be grateful if you would examine this plan and determine to what extent

3813

24

military forces may be expected to assist in establishing and maintaining this economic boundary. Since we are already operating in part of the territory lying north of the boundary and in view of the operations now in progress, you will appreciate that the matter is urgent. If desired, the Vice President, Economic Section will be glad to come at once to your Headquarters for further discussions.

For the Chief Commissioner:

NE Fiske

NORMAN E. FISKE
Colonel

Acting Executive Commissioner

Copy to:
VP Economic Section

Encl. - Advisory Anti-Inflation Board
Report for North Italy

Original copy to G-5 delivered by hand of an officer
without a file number (typed late evening of 13 Apr)

3812

785017

CC 4603-2

10 April 1945.

APR 11 1945

My dear Mr. Prime Minister:

There was forwarded to you yesterday, and I enclose herewith an additional copy, an Aide-Memoire containing the Commission's views with respect to the desirability of instituting inflationary control. The Commission's interest, you will appreciate, arises from the fact that the present rising trend of wages of workers employed by private industry is having, and has had, a serious effect on the labor problems of the Allied Armed Forces, who, as you know, are the employers of large numbers of civilians.

As I advised you orally last Friday, the Commission will be glad to assist and consult with your Government on this important question after the Ministers concerned have had an opportunity to review the attached.

Sincerely,

/s/ Ellery W. Stone
ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

His Excellency Ivanoe Bonomi,
The President of the Council of Ministers,
Italian Government,
Rome.

Copy to: Mr. A.G. Antolini, A/VP Econ. Sec.
Brig. G.A. Upjohn, CA Sec.
Brig. Graffey-Smith, Finance S/C
Comdr. J.J. Lawler, Finance S/C
W.H. Braine, Labor S/C
Lt. Comdr. Tasca, Treasury Attache, American Embassy
Mr. Rosworthy, Commercial Attache, British Embassy
U.S. Political Advisor (AC)
British Political Advisor (AC)
Exec. Commissioners
CC Files

(1145 River)

785017

4609

JAG/are

22

cc 4603-2

10 April 1945

APR 10 1945

Subject: Report of Advisory Anti-inflation Board

To: Mr. A. G. Antolini, Acting Vice President, Economic Section.

Further to Chief Commissioner's letter of 7 April 1945.
same reference and subject as above, enclosed is a copy of the
Aide Memoire which was forwarded to the Office of the President of
the Council of Ministers on 9 April 1945.

H. J. A. Quayle

J. A. QUAYLE
Major, R. A.
Staff Officer to CC

Copy to: Brig. G. R. Upjohn, CA Sec.
Brig. Grafftey-Smith, Finance S/C
Comdr. J. J. Lawler, Finance S/C
W. H. Irvine, Labor S/C
Lt. Comdr. Innes, Treasury Attache, American Embassy
Mr. Bosworth, Commercial Attache, British Embassy
U.S. Political Advisor (AC)
British Political Advisor (AC)

Exec. Commr.

CC files

3813

(Has been)

4 APR 1945

AIDE MEMOIRE

ADVISORY ANTI-INFLATION BOARD

1. The Advisory Anti-Inflation Board appointed by the Chief Commissioner, Allied Commission, Italy, on 30 March 1945, submits, as requested, an interim report which as a matter of urgency deals with prices control, commodity control and wages regulation in Italian administered territory, referring also to similar measures in ASD territory. It does not deal with Italian National Finance which will be the subject of a separate report.

2. THE MASTELLAN DIRECTIVE

The Aide Memoire communicated to the Italian Government by the Acting President on the contents of the new directive on the functions of the Allied Commission states:

"It is essential that the Italian Government formulate and implement appropriate economic controls and take all other steps possible both in order to ensure that maximum production and effective and equitable distribution and control of consumption of local resources possible under existing conditions to secure and as a prerequisite to increased economic assistance."

3. It is felt that the Italian Government is making definite efforts in the fiscal and financial field and that in any event the effect of fiscal and financial measures on the present situation will be delayed. However, in two major areas the efforts of the Italian Government do not appear to have been effective. It is to these two areas, control of prices and wages, that the attention of the government should be devoted at this time.

4. This interim report recommends that the Italian Government be advised to assume and more rigidly to enforce control over the distribution of essential commodities, the prices of such commodities; and to introduce regulation of changes in wages and salaries. The first largely governs the second, and it is emphasized that the measures which are recommended for the regulation of wages and salaries will fail, both in application and enforcement, unless there is ample evidence of a determined effort to deal with the problems of controlled commodities and prices. The wages problem cannot be treated in isolation from the other interlocked questions, and any attempt to do so will inevitably lead to

3803

- 2 -

culminating in large scale disorder.

5. CONTROL OF COMMODITIES AND PRICES.

In considering the prices of goods and services which enter into the cost of living, it becomes apparent that the greatest problem lies in making price and distribution controls effective. Determination of the proper relationship between wages and prices becomes entirely academic when the prices fixed are not observed. It is evident that the bulk of necessities are not sold at legal prices.

Rents are controlled. Enforcement in this field is comparatively simple because of the immobility of the commodity involved. Textiles, clothing and shoes are in such short supply that price fixing and distribution controls require particular emphasis. The rates for gas, electricity, telephone service and public transportation are relatively low. Food constitutes the immediate problem and the area in which vigorous price and distribution control action would yield the greatest results in curbing the present inflation.

Most of the present price and distribution control measures taken by the Italian Government are ineffective. Experience in wartime controls indicated clearly that effective price control action can be taken only with respect to that portion of supplies which it is possible to control in the most absolute physical sense of the word. This does not mean that the commodities need always actually be taken into control physically; the existence of the possibility of doing so is frequently sufficient to bring the normal buying and distribution mechanism into observance of the regulations.

The first principle to be followed is for the Government or Government licensed and supervised agencies to buy and take possession of the commodities. A pattern for such an organization exists in the Consorzio Agrario. This recommendation does not contemplate indefinite perpetuation of Government organizations as sole primary buying agents of commodities. Private agents should also be licensed as they demonstrate their ability to function effectively and their willingness to function within established regulations.

The next to be observed is complete control of transportation for the double reason that it is itself one of the shortest commodities in Italy and that its control is essential to prevent diversions to uncontrolled channels and to force sale to the approved agencies. A pattern for such an organization exists in S.A.S.

Third is the control of any intermediate handlers and the channels

- 2 -

through which controlled commodities finally reach the consumers. At this stage as in the initial buying, the Government should provide a distributing organization and/or apply rigorous licensing measures to private distributors.

Controls placed on the initial buying, transportation and distribution must be integrated. A wartime control of prices involving the operations of private organizations requires that the Government's position be clear with respect to prices at all levels of trade and with respect to utilization of transport. Whether controls established are based on exclusive Government operation or exclusive operation of private enterprises under Government regulations or some combination of the two, it is necessary that the controls cover all stages from producer to consumer.

6. WAGES AND THE COST OF LIVING

The official Central Institute of Statistics provides information regarding the monthly food expenditure of a typical family, consisting of 3 persons (equals 3.73 consuming units) on the basis of 2,200 calories daily per consuming unit. Fluctuating from month to month these statistics show an upward trend which for Rome rose from 9,194 lire in September 1944, to 12,596 lire in February 1945. In other districts there is generally the same upward trend and the significant feature is that it is more sharply pronounced in most recent months. It is reported that at least 70% of essential food items can be obtained only outside the controlled markets and the costs reflect unofficial prices to this extent. This factor is evidence of failure to control commodity prices and distribution of essential items. Comparison with gross wages of Senior State employees shows the difficulty of maintaining food standards from salaries. Normally the cost-of-living index covers other items, such as clothing and household necessities, but these are not included in the cost of food figures. A cost-of-living index based on normal family necessities would, at prevailing Italian prices, produce an astronomical figure.

7. WAGES REGULATION

Prior to the down-fall of Fascism wage changes were regulated by the State. After the liberation wage changes were ostensibly subject to approval by Government (Italian or Allied Military Government in respect of territories). Approval was given for a 70% increase on basic rates at the times of liberation, but in October 1944 it was found necessary to acquiesce in payment of a further cost-of-living bonus. In December 1944 the Italian General Confederation of Labor presented a memorial to the Italian Government requesting various measures to be taken to improve the condition of the working class, such as elimination of black market, provision of Worker Cantones and public food kitchens, use of cooperatives in

- 4 -

distribution of food and necessities; and also immediate measures to increase workers wages in the light of prevailing circumstances. The Italian Government decided, with regard to the final item, to permit representatives of industry and of labor to negotiate among themselves for a revision of the wages scale, in private industry; and decided also to grant substantial salary increases to State employees.

The effect of wage increases agreed up to March 1945, is mainly in the form of additional cost-of-living bonuses and there has been no detailed revision of basic rates. In view of the change in money values and in the size of the various bonuses subsequently granted, the distinction between skilled and unskilled workers, which was reflected in the basic wage of 1942, is losing its significance. For example, in the building industry a bricklayer, who is a skilled operator, receives 285 lire per day, and an unskilled laborer receives 275 lire per day.

In addition to these wage changes which are duly recorded as trade agreements, there are unofficial rates which are paid by individual employers to placate or to retain their workers. For example, the sheet metal worker may receive 600 lire per day in Rome and other trades correspondingly high in rates. It therefore represented an improvement on unofficial wage agreements to encourage wage negotiations between responsible representative organizations of industry and labor respectively. But central regulation and guidance is not provided.

9. WAGE REGULATION IN PRIVATE INDUSTRY IN ITALIAN GOVERNMENT TERRITORY

It is recommended that the Italian Government establish a National Wage Regulation Committee to advise it on the variation of wages in private industry; and that Provincial wage regulation committees be established to advise Prefects in the respective Provinces in Italian administered Territory.

The right of freedom of association of workers in industry for the purpose of maintaining and improving their conditions of labor has been restored in liberated Italy and the right of collective bargaining on wages and working conditions is being exercised by trade unions and workers' associations which have developed since the downfall of Fascism. Where wage changes which may be agreed between employers and workers can be applied without unduly disturbing the balance of prices of necessities or of the wage structure in the same industry in other localities or other industries in the same locality, it is desirable to allow negotiated wage changes to take effect. In the disturbed conditions of war-time and particularly in the light of difficulties which may be temporary in nature or due to be effected by special measures, it is desirable to arrange for special consideration of proposed wage changes when the negotiating parties are unable to reach agreement or when objection is lodged by other interested parties.

- 6 -

- 5 -

It is the responsibility of organized industry to have regard to the overall effect of individual wage changes, and it is the responsibility of organized workers to look after the interests of their members. The Italian Government has the overall responsibility for insuring that wage changes in industry do not adversely affect the financial and economic position of the country.

Any of these parties should therefore be afforded the opportunity of protesting against proposals for wage variations; and the recommended National Wages Regulation Committee, together with the Provincial Wages Regulation Committees, would be the appropriate authorities to which reference should be made. The proposed bodies would keep in touch with wage negotiations in progress and should be able to exercise some influence on the conclusion of such negotiations or to prepare the way for further consideration if it becomes evident that difficulties are likely to arise.

Similar Advisory Committees are to be established to assist Regional Commissioners in Allied Military Government Territory. They will be advisory only, and the responsibility for ultimate decisions will rest with Allied Military Government.

It is for the Italian Government to decide to what extent authority and responsibility would be delegated to the proposed Wages Regulation Committees if the recommendation is adopted. If the recommendations of the National Committee are not given the force of law, it is recommended that the Italian Government assumes power to give decisions based upon the recommendations of the National Committee.

9. ESTABLISHMENT OF REGIONAL TRI-LATERAL JOINT ADVISORY COMMITTEES ON LABOR AND INDUSTRIAL QUESTIONS IN AMG TERRITORY

Following a decision to appoint an Advisory Committee for each Regional Commission in AMG territory, comprising representatives of Italian Government, industry and organized workers, the Prime Minister has been invited to submit nominations of individuals to serve on the Committees. While AMG will retain full responsibility, the Advisory Committees should be of considerable assistance with regard to the regulation of wages changes and their successful operation should assist in setting the standard for Italian administered territory. The effective control of commodities distribution and of price levels in AMG territory will affect the success of wage regulation in Italian Government territory.

3807

- 6 -

RECOMMENDATIONS:

2808

That the Italian Government take the following action:

- I - To extend control of purchasing, transporting and distribution organizations for essential commodities, together with price control at all stages.
- II - To exercise strict enforcement of these controls.
- III - To establish wage regulation committees to deal with variation of wages in private industry.
- IV - To enforce observance of accepted recommendations of the National Wages Regulation Committee.

/s/ Antolini
A. S. ANTOLINI, CHAIRMAN
ADVISORY ANTI-INFLATION BOARD

- 6 -

785017

CG 4603-2

7 April 1945.

APR - 9 1945

SUBJECT: Report of Advisory Anti-inflation Board.

TO : Mr. A. G. Antolini, Acting Vice President,
Economic Section.

1. The draft letter of 4 April to the Prime Minister forwarding interim report of the Advisory Anti-inflation Board has not been and will not be signed. Instead, I conferred with the Prime Minister yesterday setting forth our concern over the inflationary trend of wages, specifically as to its effect on the employment of civilians by Allied Armed Forces. I stated that the question of wage control was but one of the factors involved in the general inflationary trend; that for the purpose of giving advice and assistance to the Italian Government pursuant to the new directive under which the Commission operates, I had established an Advisory Anti-inflation Board which had submitted to me an interim report; that I should be glad to make this interim report available to the Prime Minister in the form of an Aide-Memoire for his consideration if he so desired. The Prime Minister stated that he would be glad to receive the Aide-Memoire and welcomed our continued assistance.

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Copy to: Brig. G. R. Uphohn, CA Sec
Brig. Gaffety-Smith, Finance S/C
Comdr. J. J. Lawler, Finance S/C
W. H. Braine, Labor S/C
Lt. Comdr. Tasca, Treasury Attache,
American Embassy
Mr. Nosworthy, Commercial Attache,
British Embassy
U.S. Political Advisor
British Political Advisor

EXEC. COMM. FILES
CG FILES

3808

4609

11.06/83

2 April 1945

APR 5 1945

SUBJECT: Terms of Reference for Advisory Anti-Inflation Board

TO : Mr. A. G. Antolini, Chairman

1. Since the issue of the Anti-Inflation Committee report, there have been many changes in the economic conditions in Italy. It is now necessary to consider anew what measures should be adopted both by the Italian Government and this Headquarters to check the continued tendency towards inflation.

2. It has been decided therefore to form an "Advisory Anti-Inflation Board" composed as follows:

Chairman: - Vice President, Economic Section

Members: - Vice President, Civil Affairs Section
Joint Directors, Finance Sub-Commission
Director, Labor Sub-Commission

Advisors to be
so-called as

required: Treasury Attaché, American Embassy
Treasury Attaché, British Embassy
A representative from the Italian Government.

Secretary: To be appointed by the Chairman.

3. Terms of reference:

a. Report to the Chief Commissioner measures and policies which should be recommended to the Italian Government for immediate action to check and control the existing tendencies towards inflation. In particular, this report will deal with the bearing of the Board's recommendations on production and procurement for the military.

b. Apart from preparation of the report mentioned above in paragraph (a), the Board will:

(1) Consider what advice should be given to the Italian Government with respect to future measures for the control of wages and prices in Italian Government territory (with particular attention given to the bearing of such advice on problems of military production and procurement).

File 7/10/45

8203
BUK (50)
RA 9/14

- 2 -

14

- (2) Consider and recommend policies appropriate for Military Government territory and for territory which later will be liberated.
- (3) Consider questions involving or having a bearing on inflation which may be submitted to it from time to time.

4. The Board will meet at such times and places as the Chairman may direct.

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Copies to:

Brig. G. R. Upjohn, CGS
Brig. Graffety-Smith, Finance S/C
Cdr. J. J. Lawler, Finance S/C
S. R. Braine, Labor S/C

G. Connors —
CC FILES

Approved

A. G. Antolini
Acting Vice President
Economic Section

3802

Declassified E.O. 12356 Section 3.3/NND

No.

785017

4609
RESTRICTED

WAR 33021
FEB 061944

B/1056
FEB 081015
ROUTINE

FROM: HILDRING SIGNED MARSHALL

TO: MEMORANDUM FOR SPOTFORD PASS TO STONE

FEB 8 1945

RESTRICTED.

State and Treasury Departments advise that news story arose from unfavorable publicity accorded Rodetz in United States. Reference 3416 and TAM 434. Also that State and Treasury Departments are aware of importance of not disclosing printing of non-military currency and have been and are taking all possible precautions to avoid release of this type in accordance with your request. For your information, Office of Censorship declines to prohibit publication of news on the subject to which you refer which is not considered by that agency as involving direct military security.

FOR INFORMATION ONLY

DIST

ACTION CHIEF COMMISSIONER
INFO A/PRESIDENT
CHIEF COMMISSIONER
COS
P H BN
FINANCE SC
ECON SEC
FILE (2)

RESTRICTED

3803
RECEIVED
FEB 10 1945

AFHQ FOR AGWAR

S-416

18 JAN

ROUTINE

JAN 2 1945

~~TOP~~ SECRET PD

WIRESERVICE CARRIED SEVENTEEN JANUARY STORY QUOTING TREASURY DEPARTMENT AS STATING THAT NEW ITALIAN CURRENCY BEING PREPARED IN UNITED STATES TO REPLACE ALL EXISTING CURRENCY WHEN ALL OF ITALY LIBERATED PD
PAREN TO AFHQ FOR AGWAR FOR GENERAL HILLDRING FROM HQ ALCON SIGNED ADMIRAL

STONE PAREN

THE ADVANCE NOTICE OF THIS CONVERSION RECOMMENDED IN THE REPORT OF THE ANTI INFLATION COMMITTEE WHICH TILL NOW HAS BEEN SECRET BECOMES AN INVITATION *INFLATIONARY OPERATIONS* TO ~~ATTENTION~~ BY FINANCIAL SPECULATORS AT THE EXPENSE OF MONETARY STABILITY FOR ALL CLASSES PD GRATEFUL FOR YOUR ASSISTANCE IN PREVENTING RECURRENCE OF NEWS RELEASES OF THIS TYPE

DISTRIBUTION:

Chief of Staff
Finance S/C
CC's Files

Chief Commissioner

AFHQ FOR AGWAR

S-416

18 JAN

ROUTINE

JAN 5 1945

SECRET PD

WIRESERVICE CARRIED SEVENTEEN JANUARY STORY QUOTING TREASURY DEPARTMENT AS
STATING THAT NEW ITALIAN CURRENCY BEING PREPARED IN UNITED STATES TO REPLACE
ALL EXISTING CURRENCY WHEN ALL OF ITALY LIBERATED PD

PAREN TO AFHQ FOR AGWAR FOR GENERAL HILLDRING FROM HQ ALCON SIGNED ADMIRAL

STONE PAREN

THE ADVANCE NOTICE OF THIS CONVERSION RECOMMENDED IN THE REPORT OF THE ANTI
INFLATION COMMITTEE WHICH TILL NOW HAS BEEN SECRET BECOMES AN INVITATION
TO *INFLATIONARY OPERATIONS* BY FINANCIAL SPECULATORS AT THE EXPENSE OF MONETARY STABILITY
FOR ALL CLASSES PD GRATEFUL FOR YOUR ASSISTANCE IN PREVENTING RECURRENCE
OF NEWS RELEASES OF THIS TYPE

DISTRIBUTION:

Chief of Staff
Finance S/C
CC's Files

Chief Commissioner

222

MILLY W. STONE
Rear Admiral, USNR
Chief Commissioner

TOP SECRET

RESTRICTED

ALCOM FOR STONE

AFHQ SIGNED SACHED

P54766

NOV 191853A

ROUTINE

CITE FHGEG

20 NOV Recd

RESTRICTED.

Report on status Anti-Inflation Committee recommendations forwarded to CCS and BCS on 31 October. Reference your S 365 of 18 November.

AC Dist

Act - SO to Chief (Comm)
- Co S (2)
- File

B/P
only
20/11

11/11

RESTRICTED

REC-380
20 NOV 1946

ROUTINE

CITE FHGEG

20 NOV Recd

RESTRICTED.

Report on status Anti-Inflation Committee recommendations forwarded to CCS and BUS on 31 October. Reference your S 355 of 18 November.

NOV 191853A

P54766

AC DIST

Act - SO 15 Chief Commis.
Inf - C o S (2)
File

P/A
only
20/11

11/2/11

RESTRICTED

NOV 200800A

REC-360
20 NOV 1944
A. C.

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

785017

~~RESTRICTED~~

4609

5

002 (6)

AFHQ

ALCOM

S-366

18 NOV 44

RESTRICTED

PRIORITY

CHIEF COMMISSIONER

19 NOV Recd

RESTRICTED PD

GRATEFUL FOR CONFIRMATION THAT DISTRIBUTION OF REPORT ON STATUS OF ANTI INFLATION
COMMITTEE RECOMMENDATIONS PAREN TO AFHQ FOR SPOFFORD FROM ALCOM FROM STONE PERSONAL
PAREN REQUESTED IN PARA THREE OF MY FORWARDING LETTER ABLE SLANT CHARLIE CHARLIE
ONE ZERO ZERO DASH TWO OF TWO FOUR OCTOBER CMA HAS BEEN MADE

acc/100-2 of 24 Oct

over
20/11

AUTHENTICATED:

DISTRIBUTION:

Chief of Staff
VP, Econ Sec
CSO, Econ Sec
Col. Grafftey-Smith, Finance S/C
Cmdr. Lawler, Finance S/C
Col. Fiske, Estab. Sec.
Brig. Upjohn, CA Sec.
'A' Files

2A2
J. A. QUAYLE
Major, R. A.
Staff Officer to CC

33803

~~RESTRICTED~~

785017

Chief of Staff~~SECRET~~*4609.5*

EWS/afe

*4*COPY

A/CC 100-2

24 October 1944

27 OCT Recd

Subject: Report of the Allied Anti-Inflation Committee (Italy)
TO : Allied Force Headquarters, APO 512
(Attention: G-5 Section)

1. Reference is made to the Report of the Allied Anti-Inflation Committee (Italy), dated 19 June 1944, copies of which were sent to you to be forwarded to the Combined Chiefs of Staff.

2. We have received no comments from the Combined Chiefs of Staff but since in the normal course of operations some of the recommendations have been implemented, although the report as a whole has not been laid before the Italian Government, it seemed appropriate at this time to forward a memorandum (attached), giving the present status of the various recommendations.

3. Since the situation has changed considerably in the period since 19 June 1944, it is suggested that it would be advisable to forward this memorandum both to the Combined Chiefs of Staff, to assist them in their consideration of the Report, and also to the other original recipients.

1 Encl.

cc: Chief of Staff ✓
V.P., Econ Sec
C.S.C., Econ Sec
Col. Grafftey-Smith, Fin S/C
Cmdr Lawler; Fin S/C
Col Fiske, Esta Sec
Col Upjohn, C.A. Sec
"A" Files

/s/ Ellery W. Stone
/s/ ELLERY W. STORE
Commodore, USNR
Acting Chief Commissioner

~~SECRET~~*27/10**P/A**3793*

3 E.C. 2

HEADQUARTERS ALLIED CONTROL COMMISSION

220 394

24 October 1944

A/CC 100-2

MEMORANDUM: Status of Anti-Inflation Recommendations as of 22 October 1944.

Status

The degree of inflation has of course increased. The exact increase in the price index and in currency circulation will be found in the Monthly reports of the Finance Sub-Commission for July, August and September. The Government deficit has increased as more territory has come under the jurisdiction of the Government. Allied expenditure has also increased. There is still an extreme shortage of practically all goods. Public distrust of the currency is difficult to assess at this point; bank deposits have decreased in the past two months; bond sales were excellent in August but very poor in September. Black market premium on sterling and \$ exchange currency has increased steadily. Wages have increased throughout the period in the form of the payment of illegal wages. Legal wages have recently been increased on an average of approx. 60%. There is, as yet, no indication of a flight from the lire into real assets.

Change recommended has been made and in addition Transportation Sub-Commission is now represented.

Issued on 26 June, 1944.

No action on this recommendation.

An Inter-Ministerial Committee has been established; it is not yet fully operating.

This recommendation was urged on the Italian Government in considering the wage increase to private employees. They did not, however, adopt the recommendation. The same recommendation was urged on the Italian Government in the new decree increasing the wages of State employees. There were successful and the plan for employees. It should be noted, however, that the general principles of wage policy had to be relaxed somewhat because of the failure to receive substantial imports of food and other civilian supplies resulting in heavy public pressure in Italy.

3798

Page Recommendation

2-4 Present situation

5. Price Group representation

5. Price Directive

5. Price Group representation on Local Resource Boards

5. Parallel action of Italian Government

6. Wage policy must include simplification of the wage structure.

785017

exact increase in the price index and in currency circulation will be found in the Monthly Reports of the Finance Sub-Commission for July, August and September. The Government deficit has increased as more territory has come under the jurisdiction of the Government. Allied expenditure has also increased. There is still an extreme shortage of practically all goods. Public distrust of the currency is difficult to assess at this point; bank deposits have decreased in the past two months; bond sales were excellent in August but very poor in September. Black Market premium on sterling and \$ exchange currency has increased steadily. Wages have increased throughout the period in the form of the payment of illegal wages. Legal wages have recently been increased on an average of approx. 60%. There is, as yet, no indication of a flight from the lire into real assets.

Change recommended has been made and in addition Transportation Sub-Commission is now represented.

Issued on 26 June, 1944.

No action on this recommendation.

An Inter-Ministerial Committee has been established; it is not yet fully operating.

This recommendation was urged on the Italian Government in considering the wage increase to private employees. They did not, however, adopt the recommendation. The same recommendation was urged on the Italian Government in the new decree increasing the wages of State employees. Here we were successful and the plan adopted. It should be noted, however, that the general principles on wage policy had to be relaxed somewhat because of the failure to receive substantial imports of food and other civilian supplies resulting in heavy public pressure in Italy.

No attempt has been made to carry out this recommendation.

No action has been taken to institute any new subsidies. Food produced at cost in excess of sale price

No action has been taken on this recommendation. Extension of Aus-
sing to all major
crops.

SECRET

Page	Recommendation	Status
7.	Control of crops and all transport available is being used to transport amassed crops and rationed food supplies. There is not an excess of transport to enable any implementation of this recommendation.	
8.	Enforcement of Price and Anti-Profitseeking Legislation.	Enforcement in AMG areas is satisfactory in view of the limited personnel available. In areas restored to the Italian Government control is extremely unsatisfactory.
9.	Subsidies to maintain low bread price	Bread is still subsidized. There is at present no prospect of increasing the ration; therefore the Italian Government is pressing for withdrawal of the subsidy in view of the increase in wages.
10.	Introduction of clothing and footwear into the ration.	This has not been possible as supplies have not been received to enable implementation.
11.	Prices on imports.	It has not been possible to implement this since landed cost prices have not been received in time.
12.	Prices of industrial goods.	This has not been implemented since there has been little distribution of such goods and landed cost prices have not yet been furnished.
13.	Products of local industry.	No action as yet largely due to the fact that most products of local industry are being taken by the Armed Forces and are not being distributed.
14.	Increase in Utility Rates.	Action completed, except for telephone rates--action in which is being pressed by AGC.
15.	Stimulation of Tax assessment and collection.	Progress is being made. The Italian Government has adopted the use of individual returns and has increased assessments, and is attempting to bring the rolls up to date. Decrees have been adopted speeding up the procedure to dispose of appeals.
16.	Increase in Monopoly prices.	Action completed.
17.	Increase in Tax on Real Property.	Decree adopted and action completed.
18.	Government Revenue from price and distribution controls.	Decree adopted which amends the "turnover tax" increasing rates and simplifying methods of collection.
19.	Increased Penalties on illicit gain.	Decree adopted; the Italian Government is sequestrating fortunes acquired under the Fascist regime preparatory to adoption of confiscatory methods.

- price
5. Introduction of clothing and footwear into the nation.
This has not been possible as supplies have not been received to enable implementation.
 6. Prices on imports.
It has not been possible to implement this since landed cost prices have not been received in time.
 7. Prices of industrial goods.
This has not been implemented since there has been little distribution of such goods and landed cost prices have not yet been furnished.
 8. Products of local industry.
No action as yet largely due to the fact that most products of local industry are being taken by the Armed Forces and are not being distributed.
 9. Increase in Utility Rates.
Action completed, except for telephone rates--action in which is being pressed by AGC.
 10. Stimulation of Tax assessment and collection.
Progress is being made. The Italian Government has adopted the use of individual returns and has increased assessments, and is attempting to bring the rolls up to date. Decrees have been adopted speeding up the procedure to dispose of appeals.
 11. Increase in Monopoly prices.
Action completed.
 11. Increase in Tax on Real Property.
Decree adopted and action completed.
 11. Government Revenue from price and distribution controls.
Decree adopted which amends the "turnover tax" increasing rates and simplifying methods of collection.
 11. Increased Penalties on illicit gain.
Decree adopted; the Italian Government is sequestrating fortunes acquired under the Fascist regime preparatory to adoption of confiscatory methods.
 11. Correction of basic weaknesses in Italian Revenue System.
Has been under considerable discussion by Finance Sub-Commission and Italian Ministry of Finance. Some action has been taken although it is felt unwise to make a major change at the present time.
 12. Income Taxes.
New decrees adopted providing for individual tax-payers' declarations. Heavier penalties and higher base rates; the new base rate is 30%. The new tax also provides for assessments in respect of illicit gains.

Page Recommendation

atus

12. Excess Profits Tax
Decree adopted which does not increase rates but tightens the administrative procedure and repeals two sections of the old statute which permitted many government contractors to use a false standard year. This should considerably increase the revenue of this tax.

12. Death Duties.
Draft decree which has not yet been adopted.

12. Improvement of collection system.
Under constant discussion. The Ministry of Treasury feels that this is not the appropriate time to completely abolish the system of collecting taxes through private contractors. We doubt that the Italian Government will agree to abolish this system.

13. Basic conditions of expenditure control.
Budget has been prepared and is in operation with provision for revision every three months to meet changing circumstances. A Corte dei Conti has been organized and is operating to control expenditures.

13. Policy toward payment of accumulated claims.
All three points have been adopted and implemented by administrative instructions. So far no adverse effect on government credit has been observed.

14. Payment of subsidies.
Subsidies are still in effect on several food items and transportation of food. The Italian Government is pressing to drop all subsidies from the budget since wages have risen so considerably it is believed that these subsidies do not at present serve any function in inflation control.

14. Service on Public Debt.
Has been discussed at length with the Italian Government which proposes in its next loan to lower the interest rate.

14. Central Purchasing Agency
Now in operation.

14. Emergency Committee of Economy.
Recently recommended to the Government together with specific recommendations for economies resulting from further study of the budget.

15. Sale of new bonds and reduction of interest rate.
Minister of Treasury has prepared and discussed with Finance Sub-Commission and with the principal Commercial Bankers a decree providing for a new issue of bonds as soon as substantially all of Italy is liberated. These bonds will bear 3 1/2% interest as opposed to 5% on most of the issues now outstanding.

15. Refinancing of outstanding public debt to unify rates.
Minister of Treasury states that the terms of the outstanding bonds are such that there cannot be a complete conversion on redemption. However he hopes in connection with the sale of the new issue mentioned above to obtain

Vice controllers. We would like to agree to abolish this system.

13. Basic conditions of Budget has been prepared and is in operation with provision for revision every three months to meet changing expenditure control. A Corte dei Conti has been organized in circumstances. and is operating to control expenditures.
13. Policy toward payment of accumulated claims. All three points have been adopted and implemented by administrative instructions. So far no adverse effect on government credit has been observed.
14. Payment of subsidies. Subsidies are still in effect on several food items and transportation of food. The Italian Government is pressing to drop all subsidies from the budget since wages have risen so considerably it is believed that these subsidies do not at present serve any function in inflation control.
14. Service on Public Debt. Has been discussed at length with the Italian Government which proposes in its next loan to lower the interest rate.
14. Central Purchasing Agency Now in operation.
14. Emergency Committee of Economy. Recently recommended to the Government together with specific recommendations for economies resulting from further study of the budget.
15. Sale of new bonds and reduction of interest rate. Minister of Treasury has prepared and discussed with Financial Sub-Commission and with the principal Commercial Bankers a decree providing for a new issue of bonds as soon as substantially all of Italy is liberated. These bonds will bear 3 1/2% interest as opposed to 5% on most of the issues now outstanding.
15. Refinancing of outstanding public debt to unify rates. Minister of Treasury states that the terms of the outstanding bonds are such that there cannot be a complete conversion on redemption. However he hopes in connection with the sale of the new issue mentioned above to obtain a substantial conversion.
15. Open Market operations. In operation.
16. Termination of financing through overdraft. The Minister of Treasury is in thorough agreement in principle but at present time there is no alternative.

SECRET

SECRET

Page	Recommendation	Status
16.	Timing of program.	Work started on new bonds. Open market operations started earlier than planned with the reopening of the stock market in Rome and in Naples. The Italian Government feels that the bond program and a conversion of the outstanding public debt should not be attempted until the industrial North has been substantially liberated.
16.	Prevention of speculative extension of credit.	Periodic instructions have been sent out to the Inspectorate. A weekly report of credit outstandings is in operation to enable the making of a constant check.
16.	Lower interest rates for commercial loans.	After discussion with commercial banks and the Central Bank, rates were reduced $\frac{1}{2}$ of 1% in September, and it is hoped to continue this practice in succeeding months until a normal rate is reached.
16.	Inspectorate is to be responsible to Ministry and not to Central Bank.	Completed.
16.	Banca d'Italia to be prohibited from engaging in commercial business.	Completed.
16.	Change in interest rates of the Banca d'Italia	This action is started by a reduction of $\frac{1}{2}$ of 1% as in the case of commercial banks and ordinary treasury bonds. Reserve provision has been discussed but no action has, as yet, been taken.
17.	Lower rediscount rate.	The first reduction of $\frac{1}{2}$ of 1% has been made as in the commercial rate. It is hoped gradually to bring it down to 2% within the next four months.
17.	Control extensions of credit other than by banks.	No action.
17.	Eliminate bearer securities and bearer pass-books.	No action.
17.	Conversion.	Steps have been taken to obtain the new currency. It is hoped to have sufficient currency of the new type at the end of six months.
17.	Blocking of taxation.	There have been broad discussions in principle over the past ten months. The Minister of Treasury has now completed a discussion which is studying the problem.

785017

- of credit. operation to enable the making of a constant check.
16. Lower interest rates. After discussion with commercial banks and the Central Bank, rates were reduced $\frac{1}{2}$ of 1% in September, and it is hoped to continue this practice in succeeding months until a normal rate is reached.
16. Inspectorate is to be responsible to Ministry and not to Central Bank. Completed.
16. Banca d'Italia to be prohibited from engaging in commercial business. Completed.
16. Change in interest rates of the Banca d'Italia. This action is started by a reduction of $\frac{1}{2}$ of 1% as in the case of commercial banks and ordinary treasury bonds. Reserve provision has been discussed but no action has, as yet, been taken.
17. Lower rediscount rate. The first reduction of $\frac{1}{2}$ of 1% has been made as in the commercial rate. It is hoped gradually to bring it down to 2% within the next four months.
17. Control extensions of credit other than by banks. No action.
17. Eliminate bearer securities and bearer pass-books. No action.
17. Conversion. Steps have been taken to obtain the new currency. It is hoped to have sufficient currency of the new type at the end of six months.
17. Blocking or taxation. There have been broad discussions in principle over the past ten months. The Minister of Treasury has now appointed a commission which is studying the problem. His personal proposal is for a program to take place as soon as possible after the liberation of substantially all of Italy. He would first block all currency holdings and all deposits and then impose a tax of 50% on all currency, bank deposits, public securities and private securities including corporate shares. Many of his advisers feel that this program is too radical. A compromise proposed by one of his advisers provides for 2 conversions, the first taking place by means of over-stamping outstanding metropolitan lire, blocking on both conversions and the imposition of a 10% tax on each conversion.

19. Rate of change. No action necessary.

-4-

SECRET

<u>Item</u>	<u>Recommendation</u>	<u>Status</u>
21.	Assessing and Bread Ration.	Ration has been increased in the South but is still at 200 grams in Central and Northern Italy. The future of this program depends on imports. As a result of the pressure of public opinion in Italy, wage increases, unaccompanied by an improvement in the supply situation, have been resorted to as a means of meeting the problem of rising living costs.
21.	Olive oil refining.	Original requisitions filled; new requisitions of 420 tons caustic soda per month until 1 Jan. 1945 and 770 tons per month until 1 July 1945 have been filed.
22.	Food processing.	Program dropped for lack of materials, 4,000 tons only of tomato paste packed in wooden barrels.
22.	Food imports.	The Director of the Food Sub-Commission and the Vice-President of the Economic Section are currently discussing this program with CCS.
23.	Clothing and Footwear.	All that has been received to date is a supply of cotton thread, approximately 240,000 pairs of canvas shoes, 119 salvaged uniforms and 332 bales of raw cotton.
24.	Fertilizer and Insecticides.	Some fertilizers have been received, other requisitions are pending; Insecticides have not been received and requisitions have been pending since March 1944.
24.	Mining Equipment.	There are numerous requisitions dating back to October 1943 but in the main they have not been filled, though a few minor items have been received.
25.	Seeds.	Acquisition for new crop year filed.
25.	Farm machinery and accessories.	Soot baling wire, some binder twine and some nails have been received. Other requisitions which have not been filled have been pending since April. New requisition filed recently.
25.	Industrial rehabilitation.	Changed situations due to the substantial destruction in Central Italy have altered the possibilities of rehabilitation. No clear policy directive has as yet been received from CCS.
25.	Allocation of Coal.	This has been implemented and situation is much more satisfactory. 3793
26.	Emergency Supplies.	Some of this material has been requisitioned and partial shipments have been received, but many of the requisitions for these emergency supplies have still not been filled.

21. Olive oil refining. Original requisitions filled; new requisitions of 420 tons caustic soda per month until 1 Jan. 1945 and 770 tons per month until 1 July 1945 have been filed.
22. Food processing. Program dropped for lack of materials; 4,000 tons only of tomato paste packed in wooden barrels.
22. Food imports. The Director of the Food Sub-Commission and the Vice-President of the Economic Section are currently discussing this program with CCS.
23. Clothing and Footwear. All that has been received to date is a supply of cotton thread, approximately 240,000 pairs of canvas shoes, 119 salvaged uniforms and 532 bales of raw cotton.
24. Fertilizer and Insecticides. Some fertilizers have been received, other requisitions are pending; insecticides have not been received and requisitions have been pending since March 1944.
24. Mining Equipment. There are numerous requisitions dating back to October 1943 but in the main they have not been filled, though a few minor items have been received.
25. Seeds. Requisition for new crop year filed.
25. Farm machinery and accessories. Some belting wire, some binder twine and some nails have been received. Other requisitions which have not been filled have been pending since April. New requisition filed recently.
25. Industrial Rehabilitation. Changed situations due to the substantial destruction in central Italy have altered the possibilities of rehabilitation. No clear policy directive has as yet been received from CCS.
25. Allocation of Coal. This has been implemented and situation is much more satisfactory.
26. Emergency Supplies. Some of this material has been requisitioned and partial shipments have been received, but many of the requisitions for these emergency supplies have still not been filled.
27. Allocation of products and facilities. Action has been taken within the theatre as recommended, not by creating a new Allied Economic Council but by revising the organization of the Allied Forces Local Resources (Italian) Board, of which the Chief Commissioner is now co-chairman.

3793

3-21
SECRET

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

785017

136.

1A

ALLIED CONTROL COMMISSION

REPORT

Allied Anti - Inflation Committee (Italy)

ELLERY W. STONE

Captain, U. S. N. R.

Chairman

3795

~~U. S. SECRET~~
EXCLUDED FROM SECRET

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

ALLIED CONTROL COMMISSION

REPORT

Allied Anti - Inflation Committee
(Italy)

U. S. SECRET
EQUALLY PROHIBITED SECRET

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
I. <u>The Present Situation</u>	2
II. <u>Price Control Policy</u>	5
1. Proposal for organization of price control and distribution	5
ACC Organization	5
Italian Government	5
2. Proposed General Price Policies	6
Wage Policy	6
Policy on non-wage Incomes	6
Agricultural prices	7
Control of Food Collection and Distribution	7
Prices to Consumers	8
Prices on Imports	8
Prices of Industrial Goods and Commodities used to Aid Production	8
Products of Local Industry	9
Public Utility and Railroad Rates	9
III. <u>Financial Aspects of Inflation Control</u>	10
I. Taxation and Revenue	10
A. Introduction	10
B. Emergency Recommendations	10
C. Long-Term Recommendations	11
II. Government Expenditure Control	13
III. Government Financing	15
IV. Banking Policy	16

	<u>Page</u>
V. Impounding of Excess Purchasing Power Through Flooding or Taxation in Connection with Currency Conversion	17
VI. The Rate of Exchange	19
IV. <u>Supply Recommendations</u>	20
A. General	20
B. Essential Consumers' Goods	20
1. Crop Amassing and the Bread Ration	21
2. Olive Oil Refining	21
3. Food Processing	21
4. Food Imports	22
5. Clothing and Footwear	22
C. Production Goods for Essential Local Use	23
1. Agricultural Supplies	23
a. Fertilizers and Insecticides	24
b. Seeds	25
c. Farm Machinery and Accessories	25
2. Industrial Supplies	25
D. Emergency Supply Program	26
E. Allocation of Products and Facilities	27
V. <u>Conclusions</u>	29

APPENDICES

Appendix to IV <u>Supply Recommendations</u> Suggested Draft of AFHQ Administrative Memorandum	30
Appendix to III <u>Financial Aspects of Inflation Control</u> Reform of the Italian Tax System	32
Appendix to III <u>Financial Aspects of Inflation Control</u> Request by Eadoglio Government that the dollar value of the lira be increased	51

~~SECRET~~PROGRAM FOR INFLATION CONTROL IN ITALYINTRODUCTION

On 17 May 1944 the Chief Commissioner of the Allied Control Commission appointed an Allied Anti-Inflation Committee (Italy). This Committee consisted of the following:

Captain Ellery W. Stone (USNR), Deputy Chief Commissioner,
Chairman
Col A. P. Graffey-Smith (B), Joint Director,
Finance Sub-Commission
Col E. H. Foley Jr. (A), Joint Director
Finance Sub-Commission
Col M. E. Fiske (A), Deputy Executive Commissioner
Col C. R. Upjohn (B), Director, Legal Sub-Commission
Mr. E. M. H. Lloyd of HM Treasury
Mr. Harold Glasser of the U. S. Treasury
Lt Col J. J. Lawler (USCGR), Finance Sub-Commission
Secretary

Under its terms of reference the Committee was required "to suggest any measures they consider necessary to stop the existing tendency towards inflation in Italy's currency".

The Committee's report is presented on the following pages under four headings: I. The Present Situation. II. Price-Policy Recommendations. III. Financial Recommendations. IV. Supply Recommendations.

To carry out some of these recommendations, steps will need to be taken by the appropriate authorities in London and Washington (as, for example, in the instance of much of Section IV), or by Allied Force Headquarters (for example, the creation of an Allied Economic Council as recommended in Section IV). But for the success of much of the program reliance must be placed on the Italian Government and the Italian people, aided so far as possible by the technical and advisory services of the Allied Control Commission. This is particularly true of the financial recommendations in Section III. Some parts of the program such as the revision and strengthening of the food-amassing system and the reorganization of the tax system, were already in progress before the Committee began its work. But the program as a whole will be laid in front of the Italian Government only after it has been approved by the Combined Chiefs of Staff pursuant to TAC 162 of 6 April 1944 which expressed concern at the growing tendency towards inflation in Italy and directed the Allied Control Commission to formulate a comprehensive and definitive program for the control of inflation in Italy.

- 3 -

I. THE PRESENT SITUATION

1. Some degree of inflation is common to all countries at war, arising from an increase in purchasing power without a corresponding increase in goods to be bought. This characteristic rise in prices can only be kept in check by steps designed to prevent excess purchasing power being spent -- e.g., taxation, public loans, pegging of wages, control of prices, rationing, allocation of resources, etc.

2. In the liberated portion of Italy few of the conditions necessary for holding inflation in check could be expected to operate. The previous system of taxation and war controls was identified with Fascism and in any event was administered from Rome. The collapse of Fascism and the separation of liberated Italy from the Capital paralyzed many branches of the Government. In the circumstances, it is reassuring that the situation is not worse. Inflationary tendencies are dangerous, but are not yet out of hand. So far, despite a weak central Government and the disorganization in local government inevitably resulting from invasion, destruction, and the removal of experienced officials, a reasonable degree of public confidence has been maintained and irreparable disintegration has been prevented.

3. Prices in liberated Italy have increased considerably more than have means of payment. In July, 1943, bank deposits and notes in circulation in liberated Italy amounted to 50/60 million lire and at 31 March, 1944, were estimated at 90 to 100 billion, an increase of 70 to 80 percent in nine months. In comparison, an index of retail food prices compiled by ACC (covering both rationed foods and necessary purchases in the black or open market) rose about 500 percent during the last six months of 1943 and about 20 percent during the first four months of 1944. (This improvement was mainly due to an increase in the bread ration early in February with a consequent reduction in the amount of black-market purchase that had to be included in the Index). A cost of living index computed by ACC for Region 3 (which includes Naples Province) and covering clothing, rent, fuel and miscellaneous, as well as food, shows a rise of 320 percent since June 1943, and 133 percent since September.

4. Three main forces are responsible for this rapid rise of prices in Italy.

a. The first of these forces is the very high level of Allied military and Italian Government expenditures, financed principally by the exceedingly inflationary methods of overdrafts on the Central Bank (in the case of the Government) and disbursement of military lire (in the case of the Allied expenditures). Some progress is being made in increasing tax revenues, but the Government deficit is now running

- 3 -

at about 3 billion lire per month. A part of this is covered by sales of Treasury bills to the banks and by revenues derived from Postal Savings; but most of it is currently provided by the Banca d'Italia. The Allied Financial Agency also makes advances to the Italian Government in forward military areas.

As of June 1, 1944 Allied expenditure in Italy is currently at the level of about 2.2 billion lire per month. The total monthly increase in means of payment represented by these two elements is about 5 billion lire.

b. The second factor tending toward inflation in Italy is the extreme shortage of practically all goods. This shortage, together with the rapid increase in purchasing power mentioned in (a), has been responsible for the growth of a black market of dangerously large proportions.

c. The third influence in the inflationary situation is public distrust of the currency. This factor probably has not so far reached dangerous proportions. People are still willing to deposit money in the banks and are still buying postal bonds in moderately large volume. But "regular" dollars and sterling sell at fluctuating premia in the black market, a situation which is evidence of an incipient distrust of the lire which may readily assume importance should the public lose hope of effective stabilization.

5. The inflationary pressures are being held in check with the greatest difficulty. The primary control is the pegging of wages, which in turn depends on the purchasing power of current wages in terms of a minimum subsistence ration. The keystone in this structure is cheap bread and the success of bread rationing at a low, subsidized price derives from getting control of the grain harvest and reducing the temptation to sell in the black market. An important factor is the willingness of the farmers and the public generally to hold cash and bank deposits and to save money rather than spend it. As was indicated in the preceding paragraph, a most dangerous situation would arise if people became unwilling to hold money and rushed to buy goods at any price, as happened in Germany in the early twenties and as is now happening in Greece.

6. In the sections which follow consideration is given both to short-term remedies which can be applied to check the incipient stage of inflation such as now exists, and also to more drastic measures which may have to be applied, and could only be applied, when the whole of Italy (or at least the greater part of it) is liberated. Among the latter is a proposal for currency conversion combined with a tax on liquid assets which may appear at first sight both severe and arbitrary. In spite of this the Committee puts it forward for serious consideration as possibly the only means by which the still

- 4 -

worse evil of complete collapse of the currency, such as occurred in Germany after the last war and is now taking place in Greece, may be avoided. Headlong inflation of this kind, in which the accumulated savings of a lifetime may be wiped out and the small man who has invested in Government securities and other fixed interest bonds is left with worthless bits of paper, is unthinkable in Britain or the United States. So too is the proposed tax under the conditions existing there. But under conditions such as may prevail in Italy, in order to maintain the value of the lira and the legitimate expectations of investors in Government securities, a graduated tax on liquid assets may be regarded as the lesser of two evils.

SECRET

- 5 -

II - PRICE CONTROL POLICY

1. Proposal for Organization of Price Control and Distribution

ACC Organization

A. The work of the various sub-commissions concerned with control of prices and distribution should continue to be coordinated through the Price Group, consisting of a member of the staff of the Vice President, Economic Section, and representatives of the Finance, Industry and Commerce, Agriculture, Food, and Labour Sub-Commissions.

Other sub-commissions interested in prices should have observers attend general sessions and the representatives of these sub-commissions and representatives of the Regional Control and Military Government Section should become members for those meetings concerning particular prices in which they may be directly interested. The Price Group advises the Vice President, Economic Section, who makes the final decision.

B. An explicit directive should be issued that all ACC officials are required to obtain approval of any and all rate, price and wage decisions in Military Government Territory from the Vice President, Economic Section, with such exceptions as may be designated.

C. The Price Group should have representation on the Local Resources Boards. If an Allied Economic Council (Italy) is formed, as recommended in Section IV of this report, the Price Group should be a committee of the Council.

Italian Government

A. The Italian Government should be requested to set up an appropriate authority to act as "opposite number" to the ACC Price Group, and to set up the necessary technical organizations for securing control as above.

B. All price, rate and wage decisions within Italian Government territory should be submitted to the Commission prior to adoption and be coordinated with decisions in Military Government Territory by the Vice President, Economic Section.

- 6 -

2. Proposed General Price Policies

Wage Policy

A. Stabilization of wages is a primary condition of inflation control. Maladjustments in the wage structure must, of course, be corrected and there should be latitude in the application of the policy. It is to be expected that in the process of adjusting wages to take care of individual problems, there will be a net effect of an increase in the wage level. However, the policy, or objective, should be to maintain to the maximum extent possible the existing level of controlled wages.

B. An effective wage control should be extended over as wide a section of the working population as is possible. In particular, this policy should apply to Italian employees of the Allied Armed Forces and to agricultural labour so far as possible.

C. At the present time the improvement of living conditions which may be demanded by labour organizations or the Italian Government should be accomplished by general increases in the rationed distribution of commodities at controlled prices, and not by increases in money wages apart from those which merely involve removing maladjustments of one wage group as against another.

This policy should be continued until the time arrives when the ration available to the general public at controlled prices provides a basic minimum for subsistence, i.e., a ration of 2,000 calories of food per day, and a reasonable amount of clothing, boots/shoes. After this ration has been achieved, a formula for the determination of wage levels should be applied which will adjust wages in accordance with an index measuring the increase in the price of the rationed and controlled commodities (including rent). So long as rations are below the basic minimum the application of such a formula should not be attempted.

In general, wage policy should be such as will not provide increases in wages to compensate for price increases in the uncontrolled commodity markets.

D. One of the principal problems now being encountered in wage settlements is that of hidden wage increases. There are over 40 elements in the wage of Italian government workers. Private employers use such devices as fictitious loans. It is therefore almost impossible to know what a man's wage is or what effect a given increase would have. For one reason or another increases in one or more of these elements are continually being advocated, and in most cases it is impossible to obtain from the Government or the employer concerned a complete statement of the total income now received by the workers in question. The wage policy must include simplification of the wage structure.

Policy on non-wage incomes

Control over non-wage incomes is essential if costs of production are to be controlled and if the income pressure upon prices is to be kept down. In general non-wage incomes are higher than wage incomes and they can therefore be reduced, rather than prevented from rising, thus making a positive

- 7 -

contr tion to inflation control and the problem of distributing fairly an inadequate volume of goods. Moreover, many non-wage incomes are not the result of current contributions to production, and they can therefore be curtailed or eliminated without restricting production. It is recommended that urban and rural rents, dividends, royalties, salaries in excess of those normally paid for like services, and profits be strictly prevented from rising and reduced wherever necessary.

One of the objectives of the tax proposals of this program is to reduce such non-wage incomes. Until such time as the tax measures make their effect felt, and also in addition to taxation, such incomes can be controlled and absorbed by emergency measures (by decree or legislation where required) such as freezing, e.g., in the case of rents; by requiring that rents and payments for services be computed in money as of some base date, in the case of payments in kind; by restricting dividend payments of specified classes of companies; and by setting the prices of controlled products at levels that do not permit large profits to be made.

Agricultural Prices

A. The guiding principle of price fixing for agricultural crops should be cost of production and a reasonable profit. It is recognized that accurate statistics of costs are not easily obtainable, but estimates erring on the side of liberality can be used. Some element of inducement may be required for the most essential crops.

In the determination of costs of production, the principle should be followed of meeting the cost of the major portion of the marketable crop to be purchased, and not the costs of the highest cost producer. It is recommended that full consideration be given to the use of subsidy payments (preferably on an acreage basis) for that part of the production which was produced at a cost in excess of the price fixed.

B. In determining prices of agricultural products, consideration should also be given to the relation between prices of products which can be produced alternatively on the same land, and the influence which such price relations may have on next year's crops.

C. The price policies recommended for agricultural products can only be successful if a minimum share of consumers' goods and aids to production can be made available with equitable distribution to farmers at prices bearing a reasonable relation to farm prices.

Control of Food Collection and Distribution

A. The amassing programme should be extended to all major crops, and efforts should be made on a national or local basis as soon as possible to control and distribute through rationing such products as sugar, meat, cheese, milk and other essential foods.

B. With regard to that portion of agricultural produce which is not subject to amassing, the government through its monopoly on motor and shipping transport is in a position to control conditions of purchase and sale of a substantial portion of the marketing. To the extent possible, prices to producers should follow the policy of approximating costs of production, plus a reasonable profit.

- 8 -

Prices to Consumers

A. Within the ration, prices should be low enough to permit the wage earner with fixed income to acquire a minimum standard of subsistence. Thus, there is full justification for a subsidized price of bread so long as the ration is insufficient. With each increase in the ration, there is less need to buy in the uncontrolled market, and therefore it becomes possible to raise the price of bread. Thus, the subsidy on bread can be gradually reduced as the ration is increased to a minimum standard for food consumption.

B. Non-food items, particularly clothing and boots/shoes, should be introduced into the ration as soon as possible, and the prices should be such as enable the fixed income receiver to purchase the rationed amount without compelling him to reduce his food consumption below the basic standard.

C. Many of the price regulations now on the statute books of Italy have proved unenforceable. This is particularly true of the general price ceiling. To deal with gross cases of profiteering, it is therefore better to rely on general anti-profiteering legislation rather than on general price ceilings, which cannot be enforced under present conditions in Italy. However, it may be desirable to prescribe ceiling prices for certain essential unrationed commodities when such ceilings can be effectively enforced, to give the poorer urban consumers the possibility of acquiring part of the supplies which flow into the markets.

D. In the case of other uncontrolled commodities it is highly desirable, in order to absorb inflationary profits as revenue, that the government should intervene in the marketing of uncontrolled commodities through imposition of special taxes or levies, through the control over transportation, or through actual purchase and sale.

Prices on Imports

Since at the present time the sale of imported commodities is entirely deflationary, and the deflationary effect is measured by the total net proceeds from sale, the prices set on imported commodities should be such as will maximize the proceeds from sales. However, the application of this principle should be subordinated to the objective of achieving a basic minimum standard of subsistence in order to stabilize wages. Thus, "landed costs" of imports should be only a guide to be used in fixing prices and not the determinant of prices.

Where imported goods are of similar nature to domestic goods, it is desirable to fix prices of the imported products at levels appropriate to the local products.

Prices of Industrial Goods and Commodities Used to Aid Production

The distribution of industrial goods or aids to all forms of production should be controlled by the government as far as possible. The price policies to be adopted should be such as will attain the objectives of maximizing government revenue, without unduly increasing costs to such an extent as to force increases of controlled prices. In other words, the price policy should be flexible and designed to absorb inflationary profits while maintaining the price level of controlled commodities.

- 9

Products of Local Industry

The distribution of the products of local industry should, so far as possible, be rationed by the government, with price policies designed to prevent inflationary profits from accruing to individuals or companies, absorbing inflationary profits as government revenue, and maintaining a low controlled price level. In this connection, subsidies can be used to compensate high cost producers.

Public Utility and Railroad Rates

An increase of the rate structure for these services is essential, and should be done immediately. The adjustment should be such as will take into account the change in price levels which has already occurred in liberated Italy. The present principle of differentiation in freight rates as between essential food products and other types of cargo should be maintained.

- 10 -

III - FINANCIAL ASPECTS OF INFLATION CONTROL

This section is divided into six headings - Taxation and Revenue, Government Expenditure Control, Government Financing, Banking Policy, Impounding of Excess Purchasing Power through Blocking or Taxation in Connection with Currency Conversion, and the Rate of Exchange.

I --- TAXATION AND REVENUE

A. INTRODUCTION

To make the Italian tax system adequate as an instrument for arresting inflation and for 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 cannot be too strongly emphasized that there is no background of fiscal cooperation between government and taxpayer in Italy. There is no reliance on individual returns. The present system is based on the spy and the informer and on the taxation of things and quantities that can be seen and measured rather than on accounts that can be properly assessed. Such a system is singularly unsuitable for resisting inflationary pressures. Moreover, the long-standing and all pervading apathy toward the efficient collection of revenue has, of course, been intensified under present political and economic conditions. Except over the long-term, therefore, only limited aid in inflation control can be expected from the revision of the revenue system. Such revision will probably be the least effective aspect of the programme in the immediate emergency although it may well be the most effective long-term stabilizing influence on the economy of the country.

B. EMERGENCY RECOMMENDATIONS

There follow certain emergency measures which should be taken to absorb present excess purchasing power.

1. Stimulation of assessment and collection

There must be an intensification of efforts to revise assessments and bring the rolls up to date, to speed up collection and to improve the quality and increase the number of tax employees. Pending basic revision, existing assessments in the following categories might be arbitrarily multiplied by some figure from 2 to 6:

- a) business income
- b) income of landowner - cultivators
- c) rental income of rural landlords, especially where rent is payable in kind.

This recommendation is in accord with suggestions made by the Italian Government.

- 11 -

Government Monopolies

The Government operates monopolies for salt, tobacco, matches and lighters. This is in reality a simple form of consumption tax. Prices should be raised substantially beyond the recent 100% increase.

3. Tax on Property

There is in force at present a $\frac{1}{2}$ of 1% annual property tax on all real estate and on all personal property except furniture, cash, bank deposits and government paper. The tax is bad in theory and in any final tax revision should be abolished, but the amount of revenue it yields cannot be ignored under present circumstances. Furthermore, it represents an effective method of reaching the large agricultural landowners with respect to whom income taxation is likely to present many difficulties. It is therefore proposed in accordance with suggestions of the Italian Government that the rate of this tax be made progressive with a 2% rate in the highest bracket.

4. Government Revenue from Price and Distribution Controls.

The recommendations on price policy include proposals for government intervention in merchandise trade which are, in part, intended to absorb, as government revenue, inflationary profits accruing on items whose prices are uncontrolled. These proposals will yield substantial sums to the government immediately and very large sums when there is a resumption of domestic production and improved transportation.

5. Increased Penalties for Illicit Gain.

Upon conviction for black market, trading with the enemy and similar offences, the power to impose heavier fines, longer terms of imprisonment and additional powers of confiscation should be provided by the Italian Government. Additional revenue would also be provided if the Italian Government should decide on political rather than financial grounds to confiscate fortunes illegally acquired under the Fascist regime.

C. LONG-TERM RECOMMENDATIONS

Action must be taken to correct the following extreme weaknesses of the Italian revenue system:

1. an assessment procedure that is both unduly slow and highly inaccurate;
2. a collection system which invites high costs, collusion and corruption;
3. excessive reliance on per quantum consumption taxes.

A complete plan for reforming the Italian revenue structure may be found as an annex to this report. Very briefly, its essential features are:

- 12 -

a) Income Taxes. It is proposed that the present system of taxing income from different sources under different laws and at different flat rates be abolished and that there be substituted one uniform basic rate and a progressive surtax scale to be applied to income from whatever source derived. The tax should be collected so far as possible by withholding and other assessments should be based on the taxpayers' declaration of income. Such declarations should be subject to severe penalty for fraud or wilful negligence, and should be supported by a requirement that the taxpayer keep books subject to certain exceptions.

b) Excess profits tax

Recipients of agricultural income who are among the chief beneficiaries of present inflationary price rises are now exempted from the excess profits tax. This exemption should be abolished, a recommendation which is in accord in principle with measures proposed by the Italian Government.

c) Death Duties

Drastic increases in rates should be instituted and 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 spouse or children, at present exempt from gift and succession tax when there is more than one child, should be taxed.

d) Collection

The present system of collecting direct taxes through private contractors is primitive and unjustifiable in a country as advanced administratively 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 collection difficulties, and that only one source per tax 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 contractor's liking, he need not bid for collection of the roll. In most cases he has, at present, 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 the methods of collection, there are numerous opportunities for graft, extortion and favouritism. Finally, even the advantage of assured receipt of funds is denied the state by widespread granting of forgiveness as to part of the roll. 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. The system should be abolished and collection brought within the civil service.

- 13 -

II --- GOVERNMENT EXPENDITURE CONTROL

A. From the standpoint of inflation control a crucial sector of Italy's financial structure lies in the area of the expenditure activities of the government. Such expenditures, however, are very difficult to evaluate and control. In part, some of these expenditures are beyond the control of any government. In order to effect economies, three conditions are prerequisite:

1. an economically-minded government, conscious of its responsibility to scrutinize each item of the expenditure,
2. a properly organized system of budgetary control which will enable the government to plan its expenditures by viewing the fiscal situation as a whole, and to assure itself that only the scale of expenditures planned are actually made,
3. preparation of an annual budget with provision for periodical review in the light of changing circumstances.

B. The following is a series of proposals which have been drawn up on the basis of the limited knowledge gained in southern Italy. A complete program cannot be framed until the conditions likely to be met in northern Italy are better known. In any case such a programme can be made complete only after the government has effectively established its expenditure control system. These proposals, however, taken together, can form a barrier to inflation.

1. Policy towards payment of accumulated claims against the Government
 - a) An important inflationary item is the unpaid bills of the government and the accumulated claims which arise from unpaid obligations for wages, pensions, and for materials, houses, buildings, and services of all kinds requisitioned by (1) enemy armies, (2) Allied armies, and (3) the Italian army, all of which will unquestionably be surpassed in magnitude by claims for war damage.
 - b) No policy can be laid down to handle this most difficult problem except through a careful study by the Italian Government. But the stability of the economy and the prevention of inflation require that certain principles be embodied in that policy:
 - 1) Past debts and established claims against the government, whatever their nature, should be subjected to individual study, and only those claims should be met currently where payment would either enable a work or service to be continued which is in the interest of the Allied cause, or obviate the necessity for making a different payment, e.g., relief.

- 14 -

- 2) No interest should be paid on unpaid claims including those for pensions, requisitions and war damage compensation, and no upward adjustment of claims should be made for changes in price levels.
- 3) The determination of claims should be dissociated from their payment. Claims arising from any source may be determined at any time, but payment should not be made until the conditions in 1) are complied with.
- c) The disadvantage of this approach to the problem of government obligations is the possibly adverse effect on government credit, and the limitation of the program is the requirement to strengthen government credit. However, a definitive attempt should be made to gain the confidence and cooperation of the people in not pressing claims for past due services and supplies, explaining the damaging results to their own economy by a policy of total payment in cash.

2. Payment of Subsidies

The policy on subsidies must be coordinated with efforts to maintain a controlled price system. Subsidies can usefully contribute to the control of inflation. The bread subsidy is an outstanding example of such usefulness. A low price of bread to the consumer is the keystone of a controlled price structure in Italy, control of wages, and therefore of the control of costs of production. Subsidies which do not satisfy the test of being useful for the control of inflation should be dropped.

3. Service on Public Debt

The service on the public debt is a substantial part of the civil expenditure of the Italian Government. Interest rates on government borrowing have been maintained at artificially high levels and in the interest of economy should be lowered. The proposal for reductions in the interest rate on government borrowing is presented in detail in the section of Government Finance.

4. Military, Civil Service and other expenditures

a) The three principal items of expenditure not mentioned above are military expenditures, purchase of domestic supplies and materials, and the civil service. Military expenditures must be decided by policies of military necessity rather than inflationary aspects. At present such policies are determined by the Allies. There is a central purchasing agency in the Ministry of Finance whose powers should be extended to effect economies and apportion supplies and materials within the civil administration. Efforts should be made to simplify government procedures and to economise on government personnel.

b) It is recommended that the Italian Government create a strong Emergency Committee on Economy to review the whole field of government expenditure and make recommendations for the elimination of waste and duplication.

- 15 -

III --- GOVERNMENT FINANCING

The financing of the Italian Government deficit should be governed by the following principles:

A. The government deficit should be financed by the sale of relatively long-term bonds.

B. The service on the public debt should be reduced by decreasing the interest rate on government securities.

C. Government credit should be strengthened by funding as much as possible of the floating debt, (e.g., Treasury bills and Central Bank advances) through long-term borrowing.

Recommendations

A. A vigorous bond-selling campaign to draw in savings should be launched. Enough different types of government securities should be offered to appeal to all classes to absorb the maximum amount of cash and deposits.

The emphasis of the program should be placed on one standard security to be offered to the general public similar to the American War Savings Bond or the British National Savings Certificate. This security would be sold at a discount with interest accumulated over the whole term of the bond and redeemed at par on maturity. It should be non-negotiable and might be redeemable on 60 days notice, with a financial incentive to encourage the public to hold the bond to maturity by penalizing early redemption or giving a bonus on maturity.

Among the other securities offered there should be at least one predominantly lottery type, and for banks and other large investors one negotiable but registered security paying a fixed annual income.

B. The rates of interest paid on government borrowing should be reduced. The rates on B.T.O.'s (short term Treasury bills) at the present time range from 3.2% for a one month maturity to 5% for a 12 months maturity. In general, a reduction to rates of around 1-2% for the B.T.O.'s, $3\frac{1}{2}$ -4% for the savings bond, $3\frac{1}{2}$ % for the registered bond for large investors and banks, and a 3% net government cost on the lottery bond, appears to be possible in view of the great abundance of liquid assets in the country. This program should be part of a program which will include reductions in the structure of central and commercial bank interest rates and the elimination of interest on sight deposits (See section IV below).

C. The interest burden of the public debt issued by the Mussolini Government prior to 25 July 1943 should be reduced as soon as possible either by taxation collected at the source or by conversion (redemption or legislation) into new registered government bonds yielding not more than $3\frac{1}{2}$ %, to reduce the interest burden on the government and not to discriminate in income in favor of lenders to the Mussolini Government as against lenders to the present Government.

- 16 -

D. Active support through open-market operations should be given by the Banca d'Italia to maintain prices on government securities, and to encourage the purchase of government securities.

E. As soon as the above program has provided an adequate alternative, the present practice of borrowing from the central bank should be resorted to by the Government only in times of emergency and for as short a time as possible.

Timing of Program

Work should be begun immediately by the Ministry of Finance to prepare the issue of the war savings bond for the general public, the 3½% bond for large investors and banks, and the lottery bond. The measures of support for the government bond market should be put into effect coincident with the launching of the new issues.

The reduction of the interest rate on the outstanding public debt issued by the Mussolini Government prior to 25 July 1943 to 3½% registered government bonds should take place as soon as possible after the liberation of Rome. The policy to be adopted on the debt issued in German occupied Italy since that date should be determined only after the complete liberation of Italy.

IV --- BANKING POLICY

A. Banking policy should prevent credit extensions for all speculative purposes, including purchase and with-holding of stocks of commodities or to finance construction, which would result in the bidding up of prices rather than in increased production.

B. Credit should be available at low interest rates to finance approved productive activity in order to keep costs of production low.

C. The Inspectorate of Banks which is now under the Banca d'Italia should be made directly responsible to the Ministry of Finance and its work in controlling the credit policies of banks should be constantly reviewed and stimulated. The Inspectorate in its control over credit should work in close cooperation with the agencies of the government in charge of construction, price control, distribution and rationing.

D. To strengthen the position of the Banca d'Italia as the Central Bank it should be prohibited from engaging in any banking business in which it competes with other banking institutions.

E. The payment of interest on demand deposits by the banks and by the Banca d'Italia should be abolished. Rates paid on time and savings deposits and on postal savings bonds should be lowered to rates appropriately related to the proposed new government bond rates. As a supplementary measure of control the banks should be required to maintain cash reserves with the Banca d'Italia against their sight liabilities. The reserve should be fixed by the Banca d'Italia in consultation with the Minister of Finance.

- 17 -

F. The artificially high interest rates charged by banks should be reduced so as to decrease the costs of essential commerce and production. As these rates are traditionally based on the official discount rate of the Banca d'Italia, the latter should be lowered to not more than 2% from the present 4 1/2% rate.

G. It is essential to control speculative extensions of credit outside of normal banking and credit channels. To make such control possible all such transactions above a specified amount should be registered with the Inspectorate of Banks as a pre-requisite to enforcement at law. The Inspectorate will apply the same standards of desirability to these credit extensions as it applies to those by banks.

H. All types of bearer securities and pass books should be forbidden so as to eliminate this avenue of evasion of taxation and control.

V --- IMPOUNDING OF EXCESS PURCHASING POWER THROUGH BLOCKING OR TAXATION IN CONNECTION WITH CURRENCY CONVERSION

It is the intention of the Allied Control Commission and of the Italian Government to convert the present heterogeneous currency into new currency as soon as possible.

This prospective currency conversion will provide an opportunity for decisive action to absorb or impound a portion of the excess purchasing power which is an exceedingly dangerous threat to the stability of prices. As the public brings its currency holdings to the banks and other designated institutions for conversion, either of two steps could be taken by the Government:

- (1) All currency holdings above a certain minimum, and all deposits, may be blocked, subject to controlled withdrawals.
- (2) A tax at progressive rates may be imposed on all currency and deposits above a certain minimum and possibly on other specified liquid assets.

Which of these steps should be taken and when they will be most effective, are decisions which depend on the readiness with which the remainder of Italy is occupied, on the seriousness of the inflationary situation which will face the Italian Government at the time of conversion, and on the determination with which the Italian Government and people decide to attack the inflation problem. These decisions must finally rest with the Italian Government. It is clearly undesirable that the Allies should dictate or seem to dictate decisions on matters of such far reaching political, social, and economic importance.

The views of the Committee are the following:

18

A. A blocking programme has more disadvantages than advantages. Its advantage is that it is less extreme than a heavy tax on liquid or other assets. Its disadvantages are that it may dissuade the public subsequently from depositing its savings freely in banks for fear of additional blocking programmes; it involves a considerable administrative task of unblocking for living expenses and other permitted uses of blocked funds; and any lack of energy or scrupulousness in administration will make the measure ineffective as an anti-inflationary device. It is the view of the Committee that blocking is not an adequate measure to deal with the inflationary situation confronting the Italian Government.

B. As a purely fiscal device the taxation of currency, deposits, and possibly securities at the time of currency conversion is, in the judgment of the Committee, better calculated to effect the soaking-up of purchasing power which the present grave and prospectively even graver situation requires.

1. The objectives of such a scheme would be:

- a) To lessen the potential pressure on the price control structure arising from the volume of outstanding liquid assets in the country.
- b) To tax the hidden profits derived directly or indirectly from inflation.
- c) To provide information which will serve as the basis for the successful administration of a reformed tax system.
- d) To reveal fortunes acquired from collaboration with the enemy or from violations of economic regulations.
- e) To give the people confidence in their currency and assurances that inflation will be controlled.

2. The following is proposed as one method by which a combined currency conversion and tax could be put into effect. All outstanding metropolitan and AM lire of the denomination of 50, 100, 500, and 1,000, and any BMA notes and yellow seal dollars remaining in circulation will be required to be presented for conversion into new Italian currency within a period of 3 to 10 days.

a) Persons without bank accounts or postal accounts will:

- 1) Present above currency, counted and amount stated;
- 2) Sign statement as to ownership and value of all securities;
- 3) Be assessed and receive new currency less the tax.

b) Persons with bank accounts or postal accounts will:

- 1) Deposit the above currency in one of the accounts;
- 2) Sign statement declaring possession and value of other accounts and securities;
- 3) Be permitted to withdraw in new currency up to 50% of the total amount on deposit, but not more than 50,000 lire, until tax is assessed and paid.

- 19 -

c) Each individual must complete conversion of his holdings of the above currency in one single operation.

d) Notes of 1, 2, 5 and 10 lire denomination will not be converted and will be tax exempt. New notes of these denominations will be put in circulation as the old notes wear out.

e) With regard to the proposal for the inclusion of securities in such a tax, three possibilities exist: (1) include only government securities (2) include all securities, and (3) eliminate all securities.

f) Yield of the tax should be high. So far as rates are concerned, there are two possibilities. With appropriate exemptions to avoid undue burdens on lifetime savings, particularly those accumulated prior to the war, a flat rate could be imposed by setting the conversion rate at less than parity. Alternatively, the rates could be progressive. A flat rate has the advantages and disadvantages of bearing equally on all groups holding liquid assets. The progressive rate has the advantages and disadvantages of bearing more heavily on the groups with the largest personal accumulations of liquid assets. Since a high flat rate is probably prohibitive, a progressive rate is a more practicable method of producing a high yield. From the standpoint of reducing the potential pressure on prices, the smaller accumulations are the more dangerous to retail prices, the larger accumulations are more dangerous to wholesale prices. The possibility of a dangerous flight from the lire into commodities at any cost arises primarily from the larger accumulations.

g) The holdings of the State, Provinces and Communes, government owned or operated institutions, banks and insurance companies should not be subject to the tax. Charitable, religious, educational and other similar institutions should also be exempted.

h) Special arrangements would have to be made for tax free conversion of Allies' official funds and for conversion of currency in the hands of Allied personnel with special provisions to prevent collusion between Allied personnel and Italian civilians to evade tax payment by the latter.

j) The final decision as to the scope of such a tax and the choice of either a flat rate or a progressive rate must await determination of conditions in Northern Italy particularly the extent of war damage and total volume of government debt outstanding. The levying of this type of tax would not preclude the possibility of a later imposition of a capital levy, if necessary, to assist in rehabilitation and in the payment of war damage claims.

VI --- THE RATE OF EXCHANGE

Irrespective of whether the exchange value of the lira as established in June 1943 was too high or too low, no change in the lira exchange rate is recommended as a part of the anti-inflation programme. An increase in the dollar and sterling value of the lira would not contribute to the solution of the inflation problem in the area now liberated nor in Northern Italy, and would greatly complicate the post-war problems for Italy. In any case, in TAM 181 of 22 May 1944, the CCS approved the recommendation of the Finance Sub-Commission that there should be no alteration in the exchange rate at the present time. A complete memorandum prepared by the Finance Sub-Commission dealing with the rate of exchange may be found as an annex to this report.

- 20 -

IV - SUPPLY RECOMMENDATIONSA. GENERAL

On the supply side of the inflationary situation, the necessities are two: a) to resort to every practicable means to increase the supply of goods, primarily from domestic sources but supplemented by minimum essential imports; and b) to direct into controlled merchandising channels the items comprising the minimum subsistence standard of food and clothing. This program is inextricably bound up with the price control measures recommended in Section II and the fiscal measures recommended in Section III to soak up excess purchasing power. Each step is an indispensable part of any serious effort to control inflation. To argue which is the most important - to control supply or to control purchasing power - is no more profitable than to argue which blade of a pair of scissors does the cutting.

The Economic Section of the Commission recognizes, and the Committee concurs, that in order to provide a minimum of essential consumers goods as an inducement to farmers to bring their crops within governmental control and to provide a minimum subsistence for all persons in the liberated portions of Italy, there must be a marked increase in the supply of consumers goods. It is also recognized that shortage in tonnage and a short position in consumers goods industries in the United States and the United Kingdom militates against any considerable increase in imports to Italy of civilian supplies. It is therefore the objective of the Allied Control Commission and of the Italian Government in so far as possible to bring about the increase in the supply of consumers goods through domestic production and manufacture. In this way, it is hoped to obtain a maximum increase in civilian supplies with a minimum import of consumers goods and those raw materials, equipment and transport which would make possible local production and distribution of consumers goods in quantities considered essential.

In order to implement this, it is necessary to review the supply picture overall with the two distinct programs that make it up.

- a) Essential consumer goods
- b) Production goods for essential local use

B. ESSENTIAL CONSUMER GOODS

This category of goods is essentially composed of relief goods designed to prevent starvation, disease and political or economic disorder. These goods are in effect "finished goods" which are in short supply or non-existent in the liberated area. They are the initial deflationary spearhead if properly controlled. This category consists mainly of:

- Food
- Clothing - Footwear and Textiles
- Medical Supplies (including soap)

- 11 -

Food is obviously the most important and the most critical.

1. Grain Hoarding and the Bread Ration:

The most energetic measures must be continued to collect the maximum possible quantity of grain from the coming harvest for legal distribution through the rationing system. To this end, the price of wheat has been increased from an average of 400 to 450 lire in the past season to 900 for soft wheat and 1000 for hard wheat, per quintal, in the harvest now approaching. Moreover, upon recommendation of the Chief Commissioner, and subsequently of the Committee, Allied Forces Headquarters have increased the bread ration from 20 grams to 300 grams per day, effective July 1, 1944 as a means of reducing the demand in the black market and the incentive for grain speculators (whether producers or others) to withhold grain from the legal market. These measures are calculated to make possible the hoarding of the maximum of 1/3 of the wheat crop and are considered indispensable to the control of inflation. The only way of holding wages at their present level is to maintain a reasonable ration (300 grams daily) of cheap bread and to increase the number of ration certificates available to wage earners in the legal market. Once wage increases unaccompanied by improvement in the supply situation are resorted to as a means of meeting the problem of rising living costs, the main bulwark against inflation will be destroyed. Consequently the rationing program will be extended to olive oil, pulses and other basic foods. The Italian Government, aided by the Allied Control Commission is proceeding with this phase of the inflation-control program.

2. Olive Oil Refining:

The provision of even a moderate ration of olive oil has been a task of the utmost difficulty, and unofficial prices of olive oil have been higher in proportion than probably any other commodity. Refining of oils of high acidity and treatment of olive residues has been practically impossible since the occupation, owing to absence of necessary raw materials, especially Caustic Soda and Carbon Disulphide. 720 tons of Caustic Soda was requisitioned for Apulia alone in November 1943, in April 1944 the first 150 tons arrived. During this time large quantities of edible oil awaited refining; had they been made available thousands of quintals of edible oil could have been marketed at official prices. It is estimated that the Caustic Soda now requisitioned for olive oil refining will make sufficient edible oil for a ration of 300 grams monthly for the southern provinces of Italy for at least 3 months and leave supplies on hand ready for the refining of the new season's crop in November and December so that an ample supply of olive oil from the beginning of the new harvest will be assured. Stocks of edible oil at present will last through July and the new crop will not be available until November when the Caustic Soda requisitions are urgently needed.

3. Fruit Processing:

In some regions there exists a seasonal excess of locally grown fruits and vegetables which cannot be preserved or transported in their fresh state.

- 21 -

Food is obviously the most important and the most critical.

1. Crop Amassing and the Bread Ration:

The most energetic measures must be continued to collect the maximum possible quantity of grain from the coming harvest for legal distribution through the rationing system. To this end, the price of wheat has been increased from an average of 400 to 450 lire in the past season to 900 for soft wheat and 1000 for hard wheat, per quintal, in the harvest now approaching. Moreover, upon recommendation of the Chief Commissioner, and subsequently of the Committee, Allied Force Headquarters have increased the bread ration from 200 grams to 300 grams per day, effective July 1, 1944 as a means of reducing the demand in the black market and the incentive for grain speculators (whether producers or others) to withhold grain from the legal market. These measures are calculated to make possible the amassing of the maximum of 13% of the wheat crop and are considered indispensable to the control of inflation. The only hope of holding wages at their present level is to maintain a reasonable ration (300 grams daily) of cheap bread and to increase the number of basic necessities available to wage earners in the legal market. Once wage increases unaccompanied by improvement in the supply situation are resorted to as a means of meeting the problem of rising living costs, the main bulwark against inflation will be destroyed. Consequently the amassing program will be extended to olive oil, pulses and other basic foods. The Italian Government, aided by the Allied Control Commission is proceeding with this phase of the inflation-control programme.

2. Olive Oil Refining:

The provision of even a moderate ration of olive oil has been a task of the utmost difficulty, and unofficial prices of olive oil have been higher in proportion than probably any other commodity. Refining of oils of high acidity and treatment of olive residue has been practically at a standstill since the occupation, owing to absence of necessary raw materials, especially Caustic Soda and Carbon Disulphide. 720 tons of Caustic Soda was requisitioned for Apulia alone in November 1943, in April 1944 the first 150 tons arrived. During this time large quantities of inedible oil awaited refining; had they been made available thousands of tons of edible oil could have been marketed at official prices. It is estimated that the Caustic Soda now requisitioned for olive oil refining will make sufficient edible oil for a ration of 300 grams monthly for the southern provinces of Italy for at least 3 months and leave supplies on hand ready for the refining of the new season's crop in November and December so that an ample supply of olive oil from the beginning of the new harvest will be assured. Stocks of edible oil at present will not last beyond July and the new crop will not be available until November so that the Caustic Soda requisitions are urgently needed.

3. Food Processing:

In some regions there exists a seasonal excess of locally grown fruits and vegetables which cannot be preserved or transported in their fresh state.

- 22 -

Where this excess over immediate demand exists, the processing of this excess will help to even the flow of foods and so relieve price pressure. It has been decided to process 5000 tons of peeled tomatoes and 20,000 tons of tomato paste, used in almost any Italian dish and rich in vitamins. 9 plants will participate in the pack of the peeled tomatoes and about 40 in that of the paste. All these plants are now ready to operate, or will be made so by the time the season commences by carrying out of minor repairs with materials that are available locally. The completion of this program will provide 2500 tons of valuable foodstuffs at times of seasonal scarcity of fresh vegetables. Unless 20,000 tons of Sardinian Coal and 1000 tons of local salt which are needed for this program are obtained, and unless the requisitions which have been placed for the small quantities of preserving and packing material, are met, this extremely important volume of foodstuffs will be lost.

4. Food Imports:

Despite the increased efficiency in amassing, the production of large quantities of edible olive oil through the import of small quantities of Caustic Soda and the preservation of large quantities of seasonal fruits and vegetables through the import of small quantities of preserving and packing materials, it is inevitable with the advancing front in Italy that some basic foodstuffs be imported. Any policy of pressing for reduction of imported foodstuffs is definitely unsound under present conditions. Apple supplies are not yet assured, conditions in presently unoccupied territory are very obscure and the public must be assured of a reasonable supply of essential foodstuffs being available, if prices are to be kept down to a reasonable level.

5. Clothing and Footwear:

Next in importance to food are clothing and footwear. Contrary to the impressions which the Supply Mission formed from an incomplete survey, the Committee is informed that the reserves in the shops and in the hands of the consumers are virtually exhausted. Provision of clothing and shoes are essential for three reasons:

- a) To maintain the working efficiency of civilian workers
- b) To maintain the existing wage level
- c) To induce cultivators to deliver their crops

Insofar as these goods are imported they will have an important anti-inflationary effect; and, by providing an incentive to local food production and collection, particularly cereals, they may actually effect an economy of world supplies and a net saving of tonnage.

Insofar as these goods are locally produced, even though some imports of materials and equipment are required, pressure on prices is reduced and a net saving of tonnage results.

Requisitions for imports of clothing, footwear, and materials for their manufacture and repair were forwarded by the Allied Control Commission to Allied Force Headquarters on March 10, 1944. These requisitions were for

- 23 -

the population of Sicily, Sardinia and the Mainland including Rome and were based on fifty percent of the clothing requirements per million people in North Africa based on the experience of the North African Economic Board. After screening the requisitions and reducing the items considerably in quantity, AFHQ forwarded the requisitions to C.C.A.C. on April 11, 1944. Further recommendations containing moderate alterations in the requisitions were sent to AFHQ on June 1, 1944. AFHQ advised us on June 8th that although both sets of recommendations had been approved and forwarded ... "it is doubted that C.C.A.C. has taken any steps to implement filling of this order. The attitude of the Supply Sub-Committee probably has influenced this condition".

An interim report on the possibilities of domestic production of cotton goods was forwarded through AFHQ to C.C.A.C. on 21 February 1944, calling for 15,000 bales of raw cotton. Upon suggestion of AFHQ, requisition for 100/150 tons of cotton for initiation of the program was forwarded to C.C.S. on 13 May 1944. So far as known, no action has yet been taken by C.C.S.

The Committee wish to emphasize the extreme importance of meeting these requisitions immediately as an aid to combatting inflation.

C. PRODUCTION GOODS FOR ESSENTIAL LOCAL USE

This category of goods is essentially composed of those goods designed to get certain key parts of the Italian economy functioning so that the Italians may produce a number of basic commodities in order to maintain minimum subsistence for themselves rather than to import them from abroad. To the extent that a program of producing essential goods in Italy for use in Italy is successful, it will be possible to taper off the requirements in the "Essential Consumers' Goods" category. In that sense, therefore, these two categories of goods supplement each other in point of time.

The Commission feels that the success of the supply phase of the inflation control program does not rest solely on the Consumers' Goods program but also on the effective planning and implementation of the Production Goods program. This program is broken down into two types of supply:

Agricultural Supplies
Industrial Supplies

1. Agricultural Supplies:

Though Italy as a whole was traditionally more or less self sufficient in her food supply, the war years have seriously impaired this productivity and consequently an expanded analysis of the needs of the soil and the related accessories of production is now in progress by the Economic Section.

- 24 -

In order to implement this program, certain basic essential supplies are needed: i.e.,

- a) Fertilizer and Insecticides
- b) Seeds
- c) Farm machinery and accessories

a) Fertilizers and Insecticides:

The full requirements of fertilizers for Italian agriculture in Liberated areas, up to and including Rome, are 389,000 tons of Superphosphates and 111,000 tons of nitrogenous fertilizers. Their importance is reflected in the fact that one pound of fertilizer is equivalent to six or seven pounds of food. Unless fertilizers are distributed before the planting season, which is November, there can be no effect on the following summer harvest. Part of the requirements can be met from local production to the extent that efforts are successful in rehabilitating the fertilizer producing plants. For this purpose, phosphate rock from North Africa, certain chemicals and a limited amount of industrial equipment must be imported. It is now understood that Phosphate Rock, to the totals required, is available and can be shipped, commencing August, subject to the approval of OCS. If the rehabilitation of the fertilizer industry can be carried out, Southern Italy should supply about 25% of its requirements of superphosphates before the end of the year. Imported nitrates have been requisitioned and unless these requisitions are met, there can be no hope of reduction in the tonnage of imports of cereals.

In view of the difficulty of obtaining supplies of Sodium Nitrate or Nitric Acid for producing Sulphuric Acid necessary for the processing of Phosphate Rock, it has been arranged to process imported Ammonium Nitrate fertilizer to provide the necessary Nitric acid and to return Ammonium Sulphate for agricultural use.

These requisitions (now reduced to a minimum) must be filled since the arrivals of these supplies will ensure:

- a) substantially increased harvest,
- b) reduced food imports,
- c) increased employment in Agriculture and in the fertilizer plants.

The rehabilitation of the Sulphur mines in Sicily is important in order to provide Sulphuric Acid, carbon bisulphide and insecticides, all of which are needed for maximum food production. The estimated sulphur requirements for liberated Italy, Sicily, Sardinia are 75,000 tons for the twelve-month period ending May 31, 1945.

Production of sulphur falls short of the estimated requirements by some 50,000 tons. Two small mines are working at full production in the Italian Mainland and producing some 30,000 tons of ground sulphur ore (33% sulphur) per year. Sicilian mines are only producing about 12,000 tons of block sulphur (98-99% sulphur).

- 25 -

The low production of the Sicilian mines is primarily due to insufficient electric power and lack of mining supplies. Unless the requisitions for mining supplies placed in January 1944 for Sicily, and April 1944 for the mainland are met, this production cannot be increased.

b) Seeds: (Seed potatoes)

Approximately 37,000 metric tons of seed potatoes were imported for the present crop. It is not expected that it will be necessary to import any seed potatoes for the 1944 fall crop unless the present preliminary reports of the excellent crop north of Rome fail to materialize.

Present indications are that there will be no need to import more than 10,000 metric tons of seed potatoes for the 1945 Spring crop.

c) Farm Machinery and Accessories:

Prior to the liberation of Italy it was recognized that the farm machinery position would be extremely tight due to increased utilization during the war and the complete absence of domestic production and imports in the years 1940 to 1944. It was found impossible to prepare requisitions in adequate detail in time for the current crop year due to the monopolization of the Italian farm machinery market for many years by German suppliers and the consequent variation from types and patterns readily available in the U.S. and U.K.

It is now too late in the crop year for imported agricultural machinery parts to arrive in time to affect this harvest. Cannibalization and improvisation has been utilized in all possible cases. For example, belting is one of the most critical items and at the present time fire hoses are being used for belting. Detailed requisitions are presently being prepared which, if they can be met, will substantially increase the yield in the next crop year.

2. Industrial Supplies:

One of the basic determining factors in the field of industrial rehabilitation is the amount of coal and/or liquid fuel which can be allocated. If there is to be a sincere effort to rehabilitate (not reconstruct) basic essential industries for the civilian economy, the following two points must be established:

- 1) A clear policy to this effect,
- 2) A specific monthly allocation of coal to implement it.

Only within this set-up can a factual plan of rehabilitation of basic essential industries be formulated.

- 26 -

D. EMERGENCY SUPPLY PROGRAM

It is understood that a program for Southern Italy was prepared on the basis of North African experience. It includes a great variety of industrial materials and is intended as an "Emergency kit" for urgent repairs. Some commodities are still under procurement, others have been and are currently stored in the U.S.A. The total tonnage of the kit is 17,340 of which about 70% is in the "Steel Products" category.

A similar program for Central and Northern areas is presently under consideration, taking into account a) the greater degree of industrialization of Central and Northern Italy, b) the larger amounts of non-essential industries in the Northern part, and c) the existence of plants capable of supplying, if put in operation, many of the industrial items which had to be imported in the Southern area.

The original program was designed primarily to provide for minimum emergency repair of essential services and certain key consumer items. The program is basically non-recurrent in nature. Featured in the program are the requirements designed to restore facilities for the storage, distribution, and processing of essential civilian items.

Acquisitions are now being prepared for the entire lot and they must be met.

The following brief discussion of each component category of the program will aid in describing the content and view-point embodied in each:

Builders' Materials and Hardware: A limited supply of sawing material and hardware for essential building repairs.

Consumer Durable Goods: A few standardized household articles (knives, pots, etc.) comprising a very small tonnage primarily for institutional and communal use.

Chemicals: The chemicals group reflects the fact that the area is rich in sulfur and citrus fruits and in the chemical derivatives of these products. A marked deficiency exists in other types of chemicals needed to maintain essential consumer goods industries and agricultural activities. The amounts in each case were nominal and were not expected to suffice for longer than the time necessary to determine the rate of activity which it would be our interest to maintain in each sphere of the economy after occupation.

Electrical Equipment and Supplies: The equipment included several items for general utility and for emergency power provision. The various electrical supplies were designed for the repair of existing equipment and for the restoration of a limited number of electric light facilities in important institutional and other consumer outlets.

- 27 -

Iron and Steel Products: The greatest tonnage was allocated to the metallic products needed for general foundry, construction, industrial and general purposes. The various types, shapes, forms and sizes were chosen with regard to the most universal application possible. Only a limited number of the iron and steel products were designated for particular usage such as animal shoes, or steel stamp to facilitate the packing and export of the citrus fruits likely to be available in the area.

Non-ferrous metals: Small quantities of the non-ferrous metals were provided for bearings, soldering flux and for general industrial uses.

Plumbing and Heating Supplies: While the public water and sewage disposal systems do not fall within the scope of this program, it was assumed that various parts and supplies were needed for institutional plumbing repair and replacement.

Paper and Paper products: The largest item, namely newsprint, was planned for the dissemination of news, vital to the occupying forces, and to the civilian. Other paper products were designed for containers, wrapping and stationery.

Textiles and Leather: Only textiles suitable for protective coverings containers and general industrial and agricultural uses were provided. Twine and industrial leather belting were included.

Automotive Products: Due to the lack of information, at the time, this very important category was omitted. The North African experience reflects ... "for the lack of a fan belt or a spark plug or a tire, hundreds and hundreds of vehicles were immobilized"... The importance of this category is self-evident.

E. ALLOCATION OF PRODUCTS AND FACILITIES

Any serious effort to bring about an increase in the supply of consumer's goods through domestic production necessarily involves the apportioning and allocation of electric power, fuel and transport and of plants and industrial equipment.

a. The agricultural and industrial production of liberated Italy can contribute to the war effort in two ways: 1) directly, as utilized by the Allied Forces either through the consumption of products or the occupation and operation of warehouses, refineries, factories, etc. by contributing to the Italian participation, and 2) indirectly, by making liberated Italy less dependent on imports for the minimum supplies essential to the preservation of order behind the lines. As set forth in its memorandum of 12 November 1943, the Military Government Section of Allied Force Headquarters set forth the following priorities as guidance in the utilization of Italian resources: minimum civilian

- 26 -

needs, CCS priority exports, requirements of the Allied Forces and other exports. On the same date, Allied Force Headquarters established (AFHQ Administrative Memorandum No. 78) the Allied Force Local Resources (Italian) Board "to carry out the policies of this headquarters in regard to the local procurement and allocation of supplies, facilities and services, except rail and water transport and petroleum, required by the military within the Italian mainland" The Allied Control Commission was given representation on this Board and, according to the M.G.S. Memorandum above referred to, was to "advise the Board what local resources are and can be made available ... i.e., all such local resources as are not essential to civilian requirements".

These documents provide a procedural basis for the statement in the Report of the Hon. Henry Grady to the Department of State (March 28, 1944, page 6 (3)): "The Local Resources Board (Italy) has responsibility for apportioning, among the various phases of military requirement, ... the local resources found by the AMG/ACC organization to be surplus to essential civilian need". In practice, this procedure has not been followed. The Local Resources Board (Italy) has not only apportioned the resources but has also made the finding as to what resources are surplus to essential civilian need.

b. From the viewpoint of allocating to civilian purposes the minimum agricultural and industrial capacity and output which, without imperiling the Allied military effort in Italy, would make the maximum possible contribution to inflation control, the practice outlined in the preceding paragraph has not been satisfactory: 1) It has not reserved to the Allied Control Commission the function of determining what surpluses of both products and facilities exist over necessary civilian requirements. 2) It has not provided a procedure for the continuous review of requisitioned facilities, particularly factories, to determine whether Allied military use of them is essential to the war effort. 3) It has not brought under one allocating body the various Allied organizations which are, in fact, engaged in allocating Italian resources -- that is, land and marine transport, coal, petroleum, and electric power have not been under the jurisdiction even of the Allied Forces Local Resources (Italian) Board.

c. It is therefore recommended that there be established an Allied Economic Council (Italy) under the Chairmanship of the Chief Commissioner of the Allied Control Commission, which would bring together the resource-allocating agencies of the Allied Forces in Italy. This Council would have the power of allocating resources and facilities of all sorts where there are conflicting claims between military users, civilian users, and exports, and also would have the duty of maintaining a continuous review of all requisitioned facilities in order to determine whether their release to civilian use may be carried out without hindering the military effort. A proposed draft order establishing such a Council is appended to this report.

SECRET

- 29 -

V - CONCLUSIONS

1. Wherever war conditions exist, inflationary pressures are at work.
2. The terms of the Armistice, the military occupation and military operations have imposed and will continue to impose a very severe strain on the Italian economy.
3. Runaway inflation has been so far avoided primarily because of the faith in the Allies and an unmerited confidence in the future of the Italian financial system. However in Rome and to the North, there are increasing indications of doubt as to the future of the Lira.
4. Stricter price control, control of distribution and of the allocation of consumer goods, raw materials and equipment, are extremely important, but in the present state of supply will be palliatives and insufficient to avoid inflation.
5. Although the financial measures are important, most of them cannot be effective in the immediate future.
6. To prevent rapid deterioration of the Italian situation, some increase in the import of consumer goods, raw materials and equipment is essential.

19 JUN 1944

ELMER W. STONE
Captain, U.S.N.R.
Chairman

SECRET

- 36 -
Appendix to IV, Supply Recommendations
Suggested Draft of AITQ Administrative Memorandum

ALLIED ECONOMIC COUNCIL (ITALY)

1. In order to integrate in liberated Italy (including Sardinia and Sicily) the essential needs of the Allied Naval, Military and Air Services in Italy with the necessity for the overall development and utilization of Italian resources including production and industrial transport facilities in the interests of the war effort, the Allied Economic Council (Italy) is hereby set up.

2. The constitution of the Council shall be as follows:

Chairman - Chief Commissioner, ACC.

Deputy Chairman - Vice President, Economic Section, ACC

Members - Chairman - Allied Force Local Resources Italy Board,
Representative C in C Med,

Representatives of the following bodies shall attend whenever matters within their jurisdiction come up for consideration or when called for a general meeting by the chairman:

Central Electric Board,
Petroleum Section
Military Railway Services AAI,
Medbo, Italy.

3. The Council shall have the following powers and duties:

a. To assist in the development to its fullest extent of Italian production, industrial and transport facilities in the general interest of the war effort.

b. In carrying out this mandate the Council will bear in mind the overriding priority of the military requirements of the Allied Forces. Subject to this the Council will have regard to the necessity for developing primarily those resources, industries, and transport facilities which most nearly assist the general war effort and which reduce the strain on Allied imports of food and other commodities and on Allied transport. Consistently with the above, the Council will assist in the development of those productions, industrial and transport facilities which though not directly benefitting the war effort, indirectly do so by increasing production of essential consumer goods, checking inflation and contributing to the economic and political stability of the population in rear of the fighting forces.

c. In carrying out its functions under the last mentioned sub-paragraph, the Council shall have the power and duty of determining priorities and where necessary of actually allocating resources and facilities of all sorts (including manpower) where there are conflicting claims between military users and civilian users and exports.

- 31 -

d. The right of the Armed Forces to requisition goods and facilities in 5th and 8th Army areas, is not limited by the preceding paragraph. However, such requisitioning, particularly of factories and other industrial facilities, shall at all times be limited to the needs imposed by the military situation.

e. It shall be the duty of the Council to maintain a continuous review of all requisitioned facilities in order to determine whether their release to civilian use may be carried out without hindering the military effort.

4. Functions of Allied Force Local Resources Italy Board.

a. The Allied Force Local Resources Italy Board will continue to exercise its present functions in relation to 5th and 8th Army areas only and subject to the right conferred by para 3(e) hereof upon the Council to review from time to time requisitioned facilities in such areas.

b. The said Board will also continue to exercise the function of allocating as between Allied Naval, Military and Air Force users resources and facilities allocated to the Allied Forces by the Council.

5. The Council

a. Shall determine its own procedure and will appoint such secretariat and staff as may be required to carry out its functions.

b. May coopt other members either generally or for the consideration of any particular matter.

c. May appoint committees, sub-committees and Local Councils to carry out the policy of the Council in particular areas.

d. May call for reports from any formation or unit or member of the Allied Forces in Italy (including Sardinia and Sicily) and may take evidence on oath or otherwise as the Council sees fit.

6. Relationship with Italian Government

The Council shall maintain the closest relationship with the Italian Government and will implement its decisions through the agency of the Italian Government whenever military or other considerations permit.

The Council shall request the Italian Government to set up appropriate Governmental councils and agencies both to correlate policy with the Council and to implement such correlated policy and generally to coordinate the overall development of the economic and industrial facilities of the Italian Nation in accordance with this directive.

- 32 -

Appendix to III Financial Recommendations I
REFORM 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 inexperienced 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:

- 33 -

- (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;
- (1) that a workable tax system for Italy must above all be simple. The existence of a large body of illiterate taxpayers and inefficient administrators does not permit of many of the adjustments characteristic of the British and American systems. Theoretical equity has, therefore, in some instances been sacrificed to simplicity.

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	60.0
Excess profits	350.0
Permanent taxes	
Income from Rural real property	150.0
Income from Urban non-industrial buildings	350.0
Basic income taxes	5,250.0
Supplementary progressive income tax	810.0

Bachelor tax	240.0
Property tax (capital value)	1,400.0
Dividends and income from bearer securities	550.0
Total direct taxes	10,020.0
Imposte indirette sugli affari	
Inheritances and gifts	270.0
Turnover tax	5,600.0
Stamp tax	950.0
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 & fixtures	515.0
Coffee	100.0
Total indirect consumption taxes	3,834.0
Customs and import taxes	2,250.0
Monopolies	5,334.2
Lotteries	534.3
Grand Total	32,388.3

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 1944:

- (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 8%
 - (vi) wages of temporary labourers employed by the State - taxed at 4%
- (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 3½% on the rental income from most real estate, the proceeds being used to amortize a forced loan to the State 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

- 36 -

is supposed to file initial returns, and then to file returns in the 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 informants 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 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 expansion 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:

- (i) in the cases 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.

After modification of the present exemption limit, the basic rate, applicable to individuals, partnerships, stock companies and alike, should be quite high, say 30-40%. 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 13 years of age.

- 36 -

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 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 expansion 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:

- (i) in the cases 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.

After modification of the present exemption scale, the basic rate, applicable to individuals, partnerships, stock companies etc. alike, should be quite high, say 30-40%. 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 13 years of age.

- 37 -

(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 80-90%. 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;
- (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.)

(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 fairly 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

- 38 -

furnished with a table of amounts to be withheld, automatically computed for the various wage brackets according to pay period and family status. Withholding 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 amassi system and an absence of black markets, tax administration would be relatively simple. Sales and produce retained could be checked against amassi quotas. It might even be possible to place taxes on agrarian income on a withholding basis, the amassi 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 amassing system, or if the amassing 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. 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 amounts of tax can be introduced for these farmer 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.

- 39 -

(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.

(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.

- 40 -

(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 common 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 building 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 bi-monthly 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 previous Finance Ministers 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 assessment is at present very limited, although a previous Finance Minister had drafted strengthening provisions.

0 - 41 -

- (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 a 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 a 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 $\frac{1}{2}$ %. 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 1941, are as follows:

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

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, Richezza Mobile tax and normal profits must be invested in 3% Treasury bonds.

- 42 -

Preparation of the rolls have 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 a 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 6% dividend return on capital invested might well be reduced to at best 5%, particularly in conjunction with subjecting government bond interest to income taxation.

- 43 -

- (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.
- (j) The compulsory loan feature should be eliminated. From the taxpayers' point of view, it converts the measure into a 100% tax, which is hard to justify on anything which is so roughly measured as excess profits. Furthermore, it makes the settlement of cases extremely difficult, since there is little inducement left to settle. The administrative machinery is thus clogged to an unreasonable extent. Furthermore, the compulsory aspect of the loan will prejudice the programme of public borrowing recommended in another section of this report.

D. Consumption Taxes

1. The most important single tax in the Italian revenue system from the point of view of pre-invasion yield is a 3% turnover tax, and yet the tax is not effectively administered and it is one of the least satisfactory features 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 ("accordi") 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 Richezza Mobile 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 may have certain inflationary aspects. 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.

- 44 -

4. As distinguished from a turnover tax, a general sales tax (by which : 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, illiterate 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 upon which, in a normally functioning economy, the heaviest burden might well be laid:

- (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 on 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 25% 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.

- 45 -

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(f)) could be required to pay a tax of say 3% on his gross income reported.

E. Income from Government Monopolies

1. 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. 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 half of 1% property tax on all real estate, and most personal property. Cash, bank deposits and Treasury paper and securities are exempt. Valuations have been made, in the case of real property, by capitalising 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 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 whom income taxation is likely to present many difficulties. The chief theoretical difficulty with the present tax is its inclusion of intangibles, the taxation of which on a basis of capital value has always proven unsatisfactory owing not only to valuation difficulties but also to the ease with which ownership of such property may be concealed. It is therefore suggested that if the tax is to be retained, it be confined to immoveable property.

2. Real Property

Since there exists no real appraisal of the present capital value of Italian real property, assessors face 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 made progressive, with a 2% rate in the highest bracket.

- 46 -

G. Death and Gift Taxes

1. There is at present a small estate tax with rates ranging from 1% to 10%. There is also a progressive succession tax and 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:		3. brother or sister	4. uncle, aunt, niece, nephew	5. other
	1. a) ascendants in direct line b) only child & its descendants.	2. btwn spouses having less than 2 children			
10,000	1	1½	4½	5½	12
25,000	1½	2	5	6	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	16	35
5,000,000	6	13	16	19	40
10,000,000	8	15	18	22	45
over					
10,000,000	10	18	21	25	50

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. Emphasis on 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:

- 17 -

- (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, there are suggested the following additional measures which are to some extent included in the present law:

- (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.

- 48 -

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 probably 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 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 "essatori". The essatore 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 essatore 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%.

- 49 -

3. The *essatore* 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 "*tolleranza*", 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. *Tolleranza* 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 advanced administratively 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 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 contractor'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, favoritism 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 *essatori* be cancelled immediately thereafter.

L. 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; technicians will be needed, and considerable time will be necessary for the drafting, planning and reform of the administrative agencies. Preparations, however, can begin at once.

- 50 -

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

The other tax reforms can follow after these two most important taxes are placed into action.

Appendix to III Financial Recommendations VI

SUBJECT: Request by Badoglio Government that the dollar value of the lira be increased.

Conclusion

The Italian Government requested in a letter from Marshal Badoglio to General MacFarlane of 24 February 1944, a change in the dollar value of the lira. A study of the exchange rate of the lira has been carried out by the technical staff of this Sub-Commission. We are of the opinion that an alteration of the exchange rate of the lira at the present time is undesirable.

I. There is not adequate economic justification for a change in the foreign exchange value of the lira.

1. The Italian Government's argument as presented in Marshal Badoglio's letter and as presented orally by the Minister of Finance to representatives of the Finance Sub-Commission from time to time, is briefly as follows:

- (a) The present rate of exchange increases substantially incomes of soldiers spent in Italy and constitutes, therefore, the major inflationary factor.
- (b) People in Italy are "exchange rate conscious". The sharp downward revision in the exchange value of lire has caused psychological reactions which have aggravated the inflation problem in liberated Italy.

2. The extent to which soldier expenditures constitute an inflationary factor in liberated Italy is exaggerated in the Italian Government's argument. A reduction of these expenditures will not change the course of inflation in Italy, although it may slow down the inflationary process. Monthly payments to all Allied troops in Italy have been computed at an average of 2,725 millions of lire for the past six months. Wages returned to Finance Officers in the form of PX sales, war bond sales, cable remittances, postal remittances and soldier deposits are approximately 1,000 millions. This leaves 1,725 millions of lire actually expended per month in liberated Italy.

The effect which the doubling of the exchange value of the lira would have on soldiers' expenditures is, of course, dependent upon the reaction of the soldiers to what is, in effect, a wage cut in terms of lire. If the soldiers continue to send home the same amount of dollars as previously, then the reduction in lire expenditure in the area will amount to 900 million lire.

- 52 -

But if, as appears more reasonable, the soldiers return to the Finance Officers only the surplus lire out of their pay, and they tend to maintain the level of their lire expenditures, then the reduction of lire expenditures will be somewhat less than 900 million lire per month. It has been estimated, in a memorandum prepared on this subject, that under the most reasonable assumptions, the net soldiers' expenditures would be reduced, with a doubling of the exchange value of the lire, by only 700 million lire per month. This assumes that the average soldier will react to a cut in his lire wages by reducing his dollar remittances to the United States one third. It is reasonable to expect that the soldiers will react to a cut in their wages by reducing the amount of money they send home, as well as to reduce the amount of lire spent in the theatre. Soldiers cannot be expected to change their expenditure habits so drastically.

This reduction in monthly expenditures compares with a cumulative deficit since September 1943 of the Italian Government of 8,000 million lire, and a deficit in January 1944 of 1,800 million lire. The deficit of the Italian Government is increasing sharply from month to month. Within the near future and especially if additional territory comes under its control, the Italian Government deficit will become by far the most important inflationary factor in Italy.

Thus, the reduction in soldier expenditures resulting from an appreciation in the value of the lira would not change the course of inflation in liberated Italy and would be only of minor significance.

3. It is difficult to assess the precise contribution, if any, which "psychological" factors may play in price movements, but the Italian Government places great importance on this factor. It is argued that inflation has been stimulated through the following reactions:

- (a) Italians distrust the lira and attempt to convert lire into goods as quickly as possible.
- (b) Italian merchants fix prices on the basis of prices in foreign currencies and convert at the present exchange rate.

Distrust of the currency is undoubtedly present in Italy; and it may have some effect in stimulating inflationary price movements. But will one exchange rate rather than another change distrust into confidence? Changes in the exchange rate, whatever the character of the change, are extremely important factors in creating distrust. To change the exchange rate now would increase the distrust of the people in the currency, particularly since the currency would be fixed at a value which is obviously too high to be maintained over a long-run period.

The second part of the "psychological" argument of the Italian Government involves facts which, if true at all, refer to a very small and unimportant part of the economic picture of liberated Italy. The exchange rate is not an important factor in fixing domestic prices at the present time, particularly because of the absence of foreign trade. The producers and merchants always attempt to obtain the highest prices possible for their products and the real determinants of prices are demand and supply factors (except where legal prices are fixed and enforced).

- 53 -

II. A change in the exchange rate is not in the best interests of Italy. To the extent that, in the short run, the advantage may accrue to Italy, it would be at the expense of the Allied Governments.

The Italian Finance Minister believes that it would be in the interest of Italy to have a higher exchange now. He has admitted that the lira could not be held at a higher rate, but he believes that it would be in the interest of Italy to raise the rate now and lower it later.

1. The short-run advantages which may accrue to Italy from a higher rate now, are:

- (a) The present Italian Government, particularly the Minister of Finance, hopes to obtain dollars or dollar credits for the lire expenditures of the Allied armed forces. Thus, the Italian Government expects that expenditures of the Allied armies - in dollars - will be directly and proportionately increased by the change in the exchange rate, and Italy will acquire more dollars or dollar credits. This advantage to Italy would be at the expense of Allied soldiers or of the Allied Governments.
- (b) Imports into Italy during the next year or two will probably greatly exceed exports, and will not be dependent upon the volume of foreign exchange assets available to the Italian Government. Thus, an appreciation in the exchange rate will lower the lira cost of imports, and in the meantime, Italy will be avoiding the 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.

- 54 -

4. Moreover, even assuming some importance attaches to soldier expenditures, a sharp appreciation in the value of the lira would immediately cut the income of troops in lire. The morale of our troops would be seriously affected by such a drastic step. There are other methods of treating the problem with far less effect, if any, on soldier morale.

5. 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 on Italian prices caused by the present rates of exchange fixed for the lira.

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.

IV. Finally, an alteration in the exchange rate would impose serious administrative burdens and problems upon the armed forces.

1. This has been already demonstrated by the experience in North Africa. Some rough solutions can be found to these problems but they would involve a large amount of extra book-keeping on the part of the armed forces, injustices as between various groups, undesirable speculation, and make certain existing problems difficult to deal with.

0903