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ACC

10000/109/1547

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10000/109/1547

INFLATION
MAR. - SEPT. 1944

PRICE CONTROL POLICY

1. Proposal for organization of price control and distribution

AOC Organization

A. A price policy committee should be formed within AOC which will have full responsibility and authority for the setting of broad policies on prices including rents, wages and public utility rates, rationing and distribution for AOC. It is recommended that this committee consist of

Chief, Finance Sub-Commission, Chairman
Chief, Industry and Commerce Sub-Commission
Chief, Agriculture Sub-Commission
Chief, Food Sub-Commission
Chief, Labour Sub-Commission
Chief, Legal Sub-Commission
Executive Commissioner.

Other sub-commissions interested in prices should have observers attend general sessions, and the Chiefs of these sub-commissions should become members for those meetings in which decisions are reached on the particular prices in which they may be directly interested.

B. A small coordinating staff should be formed to study price and distribution problems, and prepare recommendations for the price policy committee. The main responsibility for price control measures must rest with the technical specialists in the interested sub-commissions who are responsible for cooperation with the Italian authorities in controlling supply and distribution of particular commodities.

C. An explicit directive should be issued that all AOC officials are required to obtain approval of any and all rate, price and wage decisions in Military Government territory from the Price Policy Committee with such exceptions as may be designated by the Committee.

D. The Price Policy Committee shall have representation on the Local Resources Boards. If an Allied Economic Council (Italy) is formed, as recommended elsewhere, the Price Policy Committee should be a committee of the Council.

Italian Government

A. The Italian Government shall be requested to set up an appropriate and high authority to act as "opposite number" to the AOC Price Control Committee, and to set up the necessary technical organizations for securing control as in C above.

B. All price, rate and wage decisions prior to adoption within Italian

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C. 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 Price Policy Committee with such exceptions as may be designated by the Committee.

D. The Price Policy Committee shall have representation on the Local Resources Boards. If an Allied Economic Council (Italy) is formed, as recommended elsewhere, the Price Policy Committee should be a committee of the Council.

Italian Government

E. The Italian Government shall be requested to set up an appropriate and high authority to act as "opposite number" to the ACC Price Control Committee, and to set up the necessary technical organizations for assuring control as in C above.

F. All price, rate and wage decisions prior to adoption within Italian Government territory will be submitted to the Price Policy Committee and will be coordinated with decisions in Military Government Territory by the Committee.

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 employees of the Allied Armed Forces and to agricultural labour.

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c. The improvement of living conditions which may be demanded by labour organizations or the Italian Government should be applied by general increases in the rationed distribution of commodities at controlled prices, at the present time, and not by increases in money wages apart from those which merely involve removing maladjustments.

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 increases in the price of the rationed and controlled commodities (including rent). So long as rations are below the basic minimum the applications 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

a 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 contribution to inflation control and to 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.

b 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 take this effect felt and also in addition to taxation, such incomes can be controlled and checked by emergency measures such as freezing. In the case of rents; some base date, in the case of payments in kind; by restricting dividend payments of specified companies; by requirements 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 companies; and by setting the prices of controlled products at levels that do not permit large profits to be made.

Agricultural prices

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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 estimations 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 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.

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c. The price policies recommended for agricultural products can only be successful if a minimum share of consumers goods and skin be 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 rationing programme should be extended to all major crops, and efforts should be made on a national or local basis as soon as possible to assess and distribute through rationing such products as meat, cheese and fish, milk and other foods.

b. With regard to that portion of agricultural produce which is not subject to price fixing and rationing, the government through its monopoly on water 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.

Prices to Consumers

a. Within the ration, prices should be low enough to permit the wage earner with fixed income to enable him to acquire a minimum standard. Thus, there is full justification for a subsidized price of bread as 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 of food consumption.

b. Non-food items, particularly clothing, 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 reducing food consumption below the basic standard.

c. Attempts to fix prices which cannot be enforced are often worse than useless. To deal with gross cases of profiteering, it may be better to rely on general anti-profiteering legislation rather than on ineffective price ceilings. [redacted]

However, it may be desirable to prescribe ceiling prices for a few essential unrationed commodities when such ceilings can be effectively enforced, for reasons of social equity, and to give the poorer urban consumers the possibility of acquiring part of the supplies which flow into the markets. Therefore all measures should be taken, even though of partial effectiveness, to reduce inflationary profits and keep prices as low as possible in uncontrolled trade.

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d. It is highly desirable that the government intervene in the marketing of uncontrolled commodities either through imposition of levies, or through the control over transportation, or through actual purchase and sale, in order to absorb inflationary profits as revenue.

Prices on Imports

Since 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, this principle is completely subsidiary to the objective of achieving a basic minimum standard of living with rationed distribution and controlled and low prices. Thus, "landed costs", of imports because only a guide or a datum to be used in fixing prices and not the determinant of price policy.

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.

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Prices on Industrial Goods and Competition Used to Aid Production

The distribution of industrial goods or aids to production should be controlled by the government as far as possible. The price policies to be adopted should be such as will reconcile the two objectives of a) maximizing government revenue, while, at the same time b) not increasing the existing level of costs. In other words, the price policy should be flexible, designed to absorb inflationary profits while maintaining the price level of controlled commodities.

Products of Local Industry

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

Public Utility and Railroad Rates

An adjustment 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. There should also be taken into account the desirability of charging high rates for luxury uses and low rates for services which are essential to the controlled income group (electric light). Special terms or extraordinary charges during this present period may also be considered for such luxuries as private travel. Freight rates may also be adjusted in a manner which will discriminate (during this emergency period) between controlled and uncontrolled commodity movements.

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SECRET

ALLIED ANTI-INFLATION COMMITTEE (ITALY)

FINANCIAL ASPECTS OF INFLATION CONTROL

24 May 1944

Pursuant to the Chief Commissioner's directive of 17 May 1944, establishing the Allied Anti-Inflation Committee (Italy), a sub-committee on Financial Aspects of Inflation Control was created. This sub-committee's interim report is submitted below.

The interim report is divided into six headings - Taxation, Government Expenditure Control, Government Finance, Banking Policy, Currency Conversion, and the Rate of Exchange. The statement made below on each of these topics is summary only; each has been developed at greater length in separate studies.

I --- TAXATION.

A. Introduction.

Action must be taken to correct the following extreme weakness 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 of every kind;

(3) 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.

B. Recommendations.

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

(a) The present Italian taxation of income consists of a hodgepodge of many different taxes, few of which contain progressive rate structures. Income from different sources is taxed under different laws and at different flat rates, being only brought together under a progressive tax on total income, the rates of which range from 1% to 20%. 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

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(b) It is proposed that one uniform basic rate be applied to income from whatsoever source derived. This basic rate would be applied;

(i) in the cases of wages and salaries, by a with-holding tax

(ii) in the case of business and professional income, etc., by declaration

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

The basic rate, applicable to individuals, partnerships, stock companies, etc. alike should be quite high, say 40%. In the light of such a high rate,

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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 21 years of age.

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

(d) At a date not later than the 31st of March in each year, every person having an income in excess of a certain minimum should be required to file a return showing his income from all sources.

(e) 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. On the assumption that the marketing of agricultural products eventually enjoys a well-organized and functioning ammasi system and an absence of black markets, tax administration would be relatively simple. Sales and produce retained could be checked against ammasi quotas. It might even be possible to place taxes on agrarian income on a with-holding basis, the ammasi deducting from the price paid a percentage equal to the basic rate less deductions for seed, implements, etc. It may be necessary under present conditions, however, to resort to declarations of income, requesting information on crops and land holdings which can be checked by agricultural officials familiar with the area. This procedure can prove successful only if the number of declarations is relatively small. Thus the small land owners or share croppers can be exempted from the requirement of submitting declarations.

(f) A business income schedule would comprehend all industrial and entrepreneurial income, whether carried on by sole proprietors, partnerships, stock associations, corporations, etc. It is 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. 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. The keeping of statutory books for tax purposes should result in discarding the coefficient system and in important cases being in fact subject to standard accounting procedure.

(g) Dividends should be liable only for surtax. 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 [illegible] desirable to elimin-

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(h) It is proposed that the taxation on rental income 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.

2. Excess Profits Tax.

(a) The present excess profits tax is payable by all commercial and industrial enterprises on the excess of current income over 1938 income in the case of individuals and over the 1937-1938 average in the case of corporations. Agricultural income is exempt. Preparation of the rolls has been extremely slow and in many instances 1940 and 1941 assessments have not yet been posted. The effectiveness of the excess profits tax as an anti-inflationary measure is seriously impaired by the fact that the law provides for a full year's delay between earning the excess profits and the beginning of tax payment.

(b) [illegible]is suggested that the basic sch[illegible] of this tax be left undisturbed and that only t[illegible] following modifications be made

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(i) Current income to be determined as is recommended for the income tax.

(ii) Agricultural income of both tenants and owner-cultivators, the chief beneficiaries of present price rises, to cease to be exempt.

(iii) The making of excess profits tax assessments to be given first priority.

3. Consumption Taxes.

(a) 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 andit is the least satisfactory feature of the tax system. It appears to have broken down completely.

(b) 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 heavy tax on the manufacturer, importer, or supplier.

4. Income from Government Monopolies.

The Italian Government maintains monopolies in the manufacture of salt, tobacco, matches and lighters. This form of consumption tax should be continued during the present period. There should, however, be an adjustment upward of prices, even beyond the recent 100% increase.

5. Capital taxes.

There is in force at present a half of 1% property tax on all real estate, and corporate securities. Cash, bank deposits and Treasury paper and securities are exempt. 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.

6. Death and gift taxes.

(a)There is at present a small progressive (up to 10%) estate tax. 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 infinitessimally small by British or American standards.

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(b) 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.

7. Collection.

(a) Direct taxes are at present collected by esattori. This private contractor system is too expensive and cannot be justified.

(b) It is recommended that there be built up within the civil service the requisite machinery and personnel for the collection of direct taxes, and that contracts with esattori be cancelled immediately thereafter.

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II — Government Expenditure Control

A. Government expenditures in Italy are responsible for the great share of the income stream of the country, and there is little hope that they will not continue to be responsible for the great share of the income stream for a long time to come. Thus, the crucial sector of Italy's financial structure for the prevention of inflation lies in the area of the expenditure activities of the government. Such expenditures, however, are very difficult to evaluate and control. The principal determinants of the volume of expenditures during the war will be military and political necessities. In part, some of these expenditures are beyond the control of any government. However, it is the responsibility of the government to restrict expenditures to the minimum necessary to achieve the purposes of the government. To carry out this responsibility, two conditions are prerequisite:

(1) an economically-minded Ministry of Finance, conscious of its social responsibilities, which will stand guard to test the economy of each expenditure; and

(2) a properly organized system of budgetary control which will enable the government to plan its expenditures, to judge the expediency of particular expenditures by viewing the fiscal situation as a whole, and to enable the government to assure itself that only the scale of expenditures planned are actually made.

B. The following is a series of proposals which have been drawn up on the basis of experience in Southern Italy. It is not a complete programme, and it can only be made complete after the government has been effectively established in Rome, and further studies made of expenditure policies. These proposals, however, taken together, can form a serious barrier to inflation.

(1) Policy towards payment of accumulated claims against the Government

(a) The most important single item in the expenditure field, and in the inflationary picture, is the problem raised by the unpaid bills of the government and the accumulated claims which will arise from unpaid wages, unpaid pensions, payment for materials, houses, buildings, and services of all kinds requisitioned by the retreating armies as well as the advancing armies, and by both sides of the Italian military establishment; and, above all, in magnitude, looms the flood of claims for war damage. By the end of 1942, the fascist government had accumulated a total of 42 billion lire of unpaid bills. The present total is probably much higher, although the latter figure provides some indication of the magnitude of the sums involved.

(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:

(i) Past debts and established claims against the government, whatever their nature, should be paid in cash only when the claimant is able to prove that the cash is needed for approved purposes. Cash payments should be made in that

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B. The following is a series of proposals which have been drawn up on the basis of experience in Southern Italy. It is not a complete programme, and it can only be made complete after the government has been effectively established in Rome, and further studies made of expenditure policies. These proposals, however, taken together, can form a serious barrier to inflation.

(1) Policy towards payment of accumulated claims against the Government

(a) The most important single item in the expenditure field, and in the inflationary picture, is the problem raised by the unpaid bills of the government and the accumulated claims which will arise from unpaid wages, unpaid pensions, payment for materials, houses, buildings, and services of all kinds requisitioned by the retreating armies as well as the advancing armies, and by both sides of the Italian military establishment; and, above all, in magnitude, looms the flood of claims for war damage. By the end of 1942, the fascist government had accumulated a total of 42 billion lire of unpaid bills. The present total is probably much higher, although the latter figure provides some indication of the magnitude of the sums involved.

(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:

(i) Past debts and established claims against the government, whatever their nature, should be paid in cash only when the claimant is able to prove that the cash is needed for approved purposes. Cash payments should be made in that proportion in which immediate need is proven.

(ii) No interest should be paid on unpaid obligations, particularly those for pensions, requisitions and war damage compensation, and no adjustment should be made for changes in price levels.

(iii) The settlement of claims should be dissociated from the payment made in compensation. Retroactive obligations arising from any source may be settled at any time, but payment should not be made until the conditions in (i) are complied with.

(iv) The longer the delay in payment, the greater the beneficial effect will be on stabilising the internal economy.

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(c) The disadvantage of this approach to the problem of government obligations is the possibly adverse effect upon government credit. As one offset to this factor, it will be necessary that the government establish a date after which all new and current obligations will be paid promptly and fully. It may be desirable for the government to take further safeguards against possibly adverse effects upon government credit. Such a safeguard might be an educational campaign on the necessity of this programme as being part of a general programme to maintain the stability of the value of the lira.

(2) Payment of subsidies

(a) The present policy with respect to subsidies is intimately connected with price policy and the efforts to maintain a controlled price system. A flat principle of "no subsidies" would be as inappropriate as the policy of continuation of all past subsidies. Each subsidy must be judged in the light of overall programme of inflation control, social equity, and the basic objective of stabilizing the cost of living. In appropriate circumstances, subsidies can usefully serve the purpose of breaking the spiral of inflation by concentrating on immediately controllable components of the price-cost structure. The case of the price of bread is an outstanding example of the continued usefulness of subsidies in the anti-inflation programme. A low price of bread to the consumer is the keystone of the controlled price structure, the control of wages, and therefore of the control of costs of production. The general principle can be established that subsidies which do not satisfy the test of being indispensable in the maintenance of prices of commodities and services, the maintenance of which has been judged essential, should be dropped after full consideration of the consequences. Particular subsidies should be dropped unless a substantial contribution to the problem of controlling inflation can be demonstrated.

(3) Service on Public Debt

The proposals for reductions in the interest rate on government borrowing is presented in detail in the section on Government Finance. The service on the public debt was one of the largest single items in the ordinary budget of the Italian government. It absorbed from one-third to one-half of the total of ordinary government receipts, As, in addition, the public debt can be expected to grow substantially due to the necessity of financing reconstruction, reduction in the interest rates paid by the government must be considered as one of the major objectives which must be gained in the sector of expenditure control.

(4) Revision of policy on pension payments

Pension payments are a major expenditure of the Italian Government and approximate the total expenditures for active governmental personnel. It is possible, however, to ease the burden of the pension system upon the economy of the country during the coming period of inflationary strain. The pension system is not on an actuarial basis, except for minor exceptions, and there is a large net government contribution. At the present time, when the government salaries are relatively low, there is little or no flexibility in which anti-inflationary influence can be [illegible] the government contribution to the pension fund. For

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(5) Social security system

(a) The social security system of Italy is quite elaborate, with coverage for old age and invalidism, unemployment, tuberculosis care, marriage and maternity grants, and the system also administers other types of social security, the most important of which is the family allowance. It is known that in southern Italy, during the present period of AMG/AOC activities, it is operating at a high deficit. In 1941 the various branches of social security received more in contributions than they paid out in benefits, with the exception of the family allowance system, whose deficit wiped out the other surpluses.

(b) Social security, and insurance generally, can be an instrument for withdrawing until a future day, liquid assets or purchasing power from the public, and for this reason should be included as a device for the control of inflation. It is desirable that the social security system operate without cash deficits and that during this period of large surpluses of purchasing power in the hands of the public, substantial reserves be built up, invested in Government securities.

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(6) Military, Civil Service and other expenditures

(a) The three principal items of expenditure not mentioned above are military expenditures, purchases of domestic supplies and materials, and the civil service. There is little that can be said, beyond the simple admonishments for economy, and for appropriate control of expenditures. Economy in the size of military establishments or in the number of civil service personnel are technical matters which will be decided on a basis other than that of the need for stemming inflation.

(b) Responsibility to public opinion is a most important and vital weapon to achieve a public spirited approach to economy by government officials. The publication of full information on government expenditures, in the greatest detail consistent with military security and with administrative feasibility is the ultimate guarantee that government expenditures will be made productively and economically.

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III - GOVERNMENT FINANCING.

A. Objectives.

The financing of the Italian government deficit should be guided by the following principal objectives:

1. The new income created by the excess of government and Allied expenditures in Italy over receipts should be offset by financing this deficit by the investment of funds which are saved by people out of current income.

2. The expenditures necessary to service the public debt should be minimized by decreasing the interest rate paid on government securities.

3. The inflationary potential should be reduced by tying-up high spendable liquid assets in relatively long-term government bonds.

4. The danger to the government credit position resulting from a constantly growing mass of floating debt should be cut down by the use of more long-term financing.

5. Public confidence in the financial system should be established by adequate publicity of pertinent financial information.

B. Recommendations.

1. A vigorous bond-selling campaign to draw in savings should be launched. The number of types of government securities offered for sale should be increased from the present single type (Buoni del Tesoro ordinari, 1-12 months maturities) to enough different types with varying maturities, varying interest rates, and lottery features, to meet the needs of all investors.

2. The emphasis of the program should be placed on one standard security to be offered to the general public such as 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 would be non-negotiable, but 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. The maximum amount which could be purchased would be limited for any one investor.

3. Other securities offered would include at least one predominantly lottery type, and one negotiable but registered security paying a fixed annual income for large investors and banks.

4. The rates of interest paid would be reduced below that paid on its borrowings by the Fascist government (3.25% for 1 month, 5% for one year, 5.69% for five and ten year maturities).

The whole interest rate structure should be considerably lowered. In general, a reduction to rates of around 2½ - 4% for the savings bond, 3½% for the

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The whole interest rate structure should be considerably lowered. In general, a reduction to rates of around 3½ - 4% for the savings bond, 3½% 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.

5. The public debt issued by the fascist government prior to 25 July 1943 should be converted into new registered government bonds yielding not more than 3%, to reduce the interest burden on the government and not to discriminate in income in favor of lenders to the fascist government as against lenders to the present government.

6. Active support should be given by the Banca d'Italia to the market for government bonds to maintain prices and yields on government securities, to assure the government of a market for securities at a rate known in advance, and to encourage investment in government securities by making them a safe and reliable investment. At the same time, the Banca d'Italia should cease competing with the government as an investment outlet for bank funds.

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7. The complete ease and secrecy of borrowing from the central bank by the government should be removed, as soon as the military situation permits. Borrowing from the central bank of any large significant amounts should be made so difficult that it will be resorted to by the government only in times of emergency and for as short a time as possible.

C. Timing of Program.

1. 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, and the decreases in the rates of interest paid on competing investments should be put into effect coincident with the launching of the new issues. The decrease in rates might be effected after the announcement of the new bond issue to strengthen the government's credit position by driving the new securities above par.

2. The conversion of the existing fascist public debt to 3% registered government bonds should take place as soon as possible after the liberation of Rome. It might be coordinated with the carrying through of the plan for an overall currency conversion and anti-inflation tax. At the same time the government should make a clear public commitment that it will honor this debt incurred under fascism.

3. The measures to reduce the ease of government borrowing from the central bank should be applied as soon as receipts from the bond selling drive make it possible.

4. Publicity on government finances could begin immediately on some aspects; the rest to be introduced piece - meal as conditions make it possible.

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IV - BANKING POLICY.

A. Objectives.

1. Banking policy should be guided to prevent credit being extended to finance speculative activity in the purchase and with-holding stocks of commodities from sale to await higher prices, or to finance activity or construction which will result in any way in the bidding up of prices rather than in increased production.

2. Credit should be available at low cost to finance approved productive activity. Interest rates on all debts (including deposits in banks), which were kept artificially high by the banking cartel under fascism, should be reduced to lower the cost of the financing of the necessary economic activity and of the government debt.

3. The anonymous "bearer" feature should be removed from financial operations and thus potential governmental scrutiny of all large financial transactions should be made possible for control and taxation purposes.

B. Recommendations.

1. The policies which have been laid down by the Banca d' Italia since liberation, and the credit control machinery which has been established represent a considerable measure of progress. There is much to be done, however, to improve the efficiency with which the program is being administered.

a. The work of the Banca d' Italia branches in controlling the other banks has to be constantly reviewed and stimulated. The Ministry of Finance should appoint an official to assume the responsibility for supervising the Banca d' Italia work in this field.

b. The Office of Coordination of the Banca d' Italia needs to work more actively in compiling, analyzing, and using the statistics of movements in credit in the work of control.

2. To strengthen the position of control of the Banca d' Italia as against the other banks and to make it more truely a banker's bank, the Banca d' Italia should retire from any banking business which competes with other banking institutions.

3. The Banca d' Italia 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.

4. Although with the direct measures of control available, control over bank credit policy by means of required reserves should not be necessary, however, direct controls have not been conspicuously successful and it might be useful as a supplementary measure of control to require banks to maintain a reserve with the Banca d' Italia against their sight liabilities.

5. The payment of interest on bank deposits by the banks and by the

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5. 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 at banks and on postal savings bonds should be lowered to rates below the government bond rate.

6. The artificially high interest rates charged by banks need to be reduced to reduce the costs of essential commerce and production. As these rates depend on the official discount rate of the Banca d' Italia, this should be reduced by around 2½% from the present 4½% rate/

7. All large credit and loan transactions taking place outside of banking and credit institutions should be registered in order to be enforceable in law. Speculative extensions of credit outside of regular channels in this manner should be controlled. 240

8. All types of bearer pass - books and bearer savings - bonds issued by banks should be forbidden to eliminate the use of this easy method for evasion of taxation and controls.

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V --- CURRENCY CONVERSION AND AN ANTI-INFLATION TAX PROPOSAL

A. Objectives.

1. To reduce the volume of outstanding liquid assets in the country and thereby lessen the pressure on the price control structure.

2. To tax the hidden profits derived directly or indirectly from inflation.

3. To provide information which will serve as the basis for the successful administration of a reformed tax system.

4. To reveal fortunes acquired from collaboration with the enemy or from violations of economic regulations.

5. To give the people confidence in their currency and assurance that inflation will be controlled.

6. To simplify the currency system.

B. Recommendations.

1. Conversion of currency. All outstanding metropolitan and AM lire of the denominations of 100, 500 and 1,000 will be presented for conversion into new Italian currency.

a. Persons without bank accounts or postal savings accounts will:

1) Present old currency, counted and amount stated;
2) Sign statement as to ownership of government securities;
3) Be assessed and pay the tax - deducted from the amount of old currency presented;
4) Receive new currency.

b. Persons with bank accounts or postal savings accounts will:

1) Deposit the old currency in one of the accounts;
2) Sign statement declaring possession of other accounts and of government securities;
3) Have freedom of withdrawal in new currency of 50% of the account in which deposit of currency was made, but not more than 50,000 lire, until tax is assessed and paid;
4) Register all government securities to satisfy condition for receipt of interest.

Multiple conversion will be avoided by stamping identification on ration cards.

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4) Register all government securities to satisfy condition for receipt of interest.

Multiple conversion will be avoided by stamping identification or ration cards.

2. Anti-inflation tax.

a. An anti-inflationary progressive tax can be applied as part of the conversion programme on all holdings of currency, bank deposits, and government securities. The taxes can be payable immediately on conversion of currency holdings for those conversions which are not complicated by computation of deductions. Other and more complicated conversions can have the tax assessed during ensuing months, giving the persons freedom to utilize a percentage of their deposit account which will safeguard the full tax liability.

b. Banks, insurance companies, railroads and all government owned, or operated institutions including the State, Provinces and Communes, will not be subject to the tax. Eleemosynary, religious, educational and other similar institutions can also be exempted from the tax.

c. Deductions of personal liabilities in excess of some administratively feasible figure (say 5,000 lire) could be allowed.

d. The continued and efficient operation of private business enterprises is essential and such elements can be subject to special tax arrangements.

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in the case of large corporative enterprises, the progressive rate of taxation may be too severe. In such a case, a flat 50% tax may be applied.

3. Administration of program.

a. Any drastic programme to combat inflation - just as inflation itself - is bound to create injustices. An attempt will have to be made to distinguish between persons whose holdings of currency, bank deposits, and securities represent a life time of saving and those who directly profited from the inflation of recent years.

b. It is highly important that the programme should not adversely affect the government's power to obtain needed funds. However, this result need not follow. The tax would remove all doubts as to the government recognizing the prior issues. More important, the government will actually strengthen very considerably the financial structure of the country by reducing the pressure on the price structure caused by the inflated volume of liquid assets. The Government debt burden will be considerably [illegible]ened.

c. The programme will not disrupt the economic life of Italy. Provision will be made for payments of wages and salaries to farm and urban labour. The mass of people will not be subject to excessive taxation and will continue to have adequate purchasing power to acquire basic necessities. Prices may tend to decline, particularly for commodities which have been withheld from the market in expectation of a further internal depreciation of the lire. Farm products may be included in this category.

d. To put the programme into effect, new currency is necessary. Arrangements have already been made with Washington for this purpose. The maximum new currency required during the conversion period will probably be in the neighbourhood of 75 to 100 billion lire.

C. Timing of Programme.

The date fixed for putting the programme into effect should be carefully selected, for this programme can be applied once, and once only. It should be determined by the following considerations;

a) The date on which the new currency is physically available in Italy for the conversion operation;

b) The programme can be most effectively put into effect simultaneously for all parts of Italy;

c) The date fixed should be appropriately related with the timing of other parts of the stabilization programme and at the crucial stage in the inflationary movement.

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VI --- THE RATE OF EXCHANGE

A. No change in the lira exchange rate is recommended as a part of the anti-inflation program. An increase in the dollar and sterling value of the lira would not contribute materially to the solution of the inflation problem in the area now occupied nor in northern Italy, but would, on the contrary, impose penalties upon ourselves and our troops and complicate the post-war problems for Italy itself.

B. There is no direct connection between exchange rates and the domestic price level, a fact amply demonstrated by the experiences of all countries that have from time to time changed their exchange rates through altering the gold content of their currencies or, if they were on a managed standard, through changing the official rates at which they were willing to buy or sell foreign currencies. The rate did not cause the inflation, nor would its change improve the situation.

While it is true that the announcement of the Allied rates probably shocked many Italians, the consequent loss of confidence in the lira could not have been large. Opinion upon the future value of the lira to its holders is mainly formed by its current purchasing power in Italy and estimates of that purchasing power in the future. The purchasing power of the lira declined continuously throughout the war as a result of enormous Government expenditures, and precipitously from the time of the Allied landing in Sicily, because of the still greater Government expenditures occasioned by the landing, because of the failure of the civilian supply mechanism which accompanied the breakup of the Italian Government, and mostly because of the complete break-down of internal transportation resulting from the destruction of roads, bridges, and rolling stock and from the exclusive use for military purposes of those that remained. The rise in prices was inescapable, and a loss of confidence in the value of the lira was therefore equally inescapable. After the loss of a major war and the fall of a 20-year Government, and in the face of prices that made the purchase of a subsistence diet almost impossible for the majority of the people, the additional loss of confidence in the value of the lira that may have resulted from the announcement of the dollar-sterling-lira exchange rate must have been very small indeed.

C. On the other hand it is true that the expenditures of Allied soldiers add to the stream of inflationary expenditures and that those expenditures are higher than they would be if the soldiers received less lire when their wages were converted from dollars or sterling to lire. It does not follow, however, that the inflation was in any considerable measure created by these expenditures, that it would have been wise to have limited such expenditures through determination at the time of occupation of a higher rate for the lira, or that the current situation would be materially improved by altering the rate at this time.

1. Soldiers' expenditures are not as large as usually assumed. Most of the wages of the Allied forces are allotted directly to their home countries, and, of that portion paid to them in Italy, a very large part is spent in army PX's, or remitted home through postal money orders or cables. In recent months total soldiers' expenditures as calculated by subtracting PX sales and remit-

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2. Changing the exchange rate would not reduce this expenditure in proportion to the change in the rate. Soldiers spend 1.8 billion lire per month at the present time because at present prices and with their present lira incomes they choose to do so. If the dollar value of the lira were doubled, soldiers would choose to buy less, but in all probability would not choose to buy only half as much. If it can be assumed, as seems reasonable, that they would choose to reduce their remittances home by 1/3 in order to prevent their local consumption from being cut in half, the total reduction in soldiers' expenditures that would result from a doubling of the dollar value of the lira would be only about 700 million lire.

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3. While 700 million lire per month is a large sum, its importance in the inflationary situation can only be assessed by comparing it to those inflationary expenditures that would not be reduced by a change in the exchange rate: the Italian Government deficit and the military expenditures of the Allied forces and agencies for local purchases and the hire of local labor. The Italian Government deficit is now approximately 3 billion lire per month and the military expenditures of the Allied forces are considerably over 500 million lire per month. It is certain, therefore, that reducing soldiers' expenditures by 700 million lire and leaving about 4,500 million of other inflationary expenditures (1,100 million of soldiers' expenditures, the expenditures of the Allied forces, and the 3,000 million deficit of the Italian Government) cannot contribute decisively to the solution of the Italian inflation problem.

D. It is advocated that the existing rate be kept in force when the rest of Italy is won, unless circumstances found at that time clearly indicate that a change is justified.

It is extremely difficult to obtain reliable economic information on northern Italy. Such information as is obtained from prisoners, from refugees, and from the enemy radio indicates that while prices are not as high in northern Italy as they are here, they are already rising rapidly, and the difference between southern and northern prices is rather rapidly diminishing. The sharp rise in prices that occurred in southern Italy last summer was precipitated by the war in this area: by the acceleration of war expenditures, by the disruption of the Government, by the destruction of means of transport and supply, and by the destruction and pillage performed by the enemy in his retreat; the rise has continued since occupation because of the continuance of heavy Italian Government expenditures, because of Allied expenditures, and to a great extent because the effects of the destruction of transport and supply facilities remain with us. All of these factors may be expected to be found in operation in the north of Italy when we arrive. There is reason to believe, therefore, that the rise in prices already in progress in northern Italy will accelerate, and that we will find inflation substantially as bad there as here. There is little reason to believe that a different exchange rate would be found appropriate.

E. Because the inflation was not caused by the exchange rate and because the inflationary situation in this area or in northern Italy cannot be corrected to any appreciable extent by a change in the exchange rate, it is strongly recommended that no change be made. While it would not contribute greatly to the control of inflation, raising the dollar value of the lira would:

(1) impose a substantial burden upon the Allied troops whose purchasing power in Italy would be cut to the detriment of their well-being and morale,

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VI — THE RATE OF EXCHANGE

A. No change in the lira exchange rate is recommended as a part of the anti-inflation program. An increase in the dollar and sterling value of the lira would not contribute materially to the solution of the inflation problem in the area now occupied nor in northern Italy, but would, on the contrary, impose penalties upon ourselves and our troops and complicate the post-war problems for Italy itself.

B. There is no direct connection between exchange rates and the domestic price level, a fact amply demonstrated by the experiences of all countries that have from time to time changed their exchange rates through altering the gold content of their currencies or, if they were on a managed standard, through changing the official rates at which they were willing to buy or sell foreign currencies. The rate did not cause the inflation, nor would its change improve the situation.

While it is true that the announcement of the Allied rates probably shocked many Italians, the consequent loss of confidence in the lira could not have been large. Opinion upon the future value of the lira to its holders is mainly formed by its current purchasing power in Italy and estimates of that purchasing power in the future. The purchasing power of the lira declined continuously throughout the war as a result of enormous Government expenditures, and precipitously from the time of the Allied landing in Sicily, because of the still greater Government expenditures occasioned by the landing, because of the failure of the civilian supply mechanism which accompanied the breakup of the Italian Government, and mostly because of the complete break-down of internal transportation resulting from the destruction of roads, bridges, and rolling stock and from the exclusive use for military purposes of those that remained. The rise in prices was inescapable, and a loss of confidence in the value of the lira was therefore equally inescapable. After the loss of a major war and the fall of a 20-year Government, and in the face of prices that made the purchase of a subsistence diet almost impossible for the majority of the people, the additional loss of confidence in the value of the lira that may have resulted from the announcement of the dollar-sterling-lira exchange rate must have been very small indeed.

C. On the other hand it is true that the expenditures of Allied soldiers add to the stream of inflationary expenditures and that those expenditures are higher than they would be if the soldiers received less lire when their wages were converted from dollars or sterling to lire. It does not follow, however, that the inflation was in any considerable measure created by these expenditures, that it would have been wise to have limited such expenditures through determination at the time of occupation of a higher rate for the lira, or that the current situation would be materially improved by altering the rate at this time.

1. Soldiers' expenditures are not as large as usually assumed. Most of the wages of the Allied forces are allotted directly to their home countries, and, of that portion paid to them in Italy, a very large part is spent in army PX's, or remitted home through postal money orders or cables. In recent months [illegible] and remit-

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2. Changing the exchange rate would not reduce this expenditure in proportion to the change in the rate. Soldiers spend 1.8 billion lire per month at the present time because at present prices and with their present lire incomes they choose to do so. If the dollar value of the lira were doubled, soldiers would choose to buy less, but in all probability would not choose to buy only half as much. If it can be assumed, as seems reasonable, that they would choose to reduce their remittances home by 1/3 in order to prevent their local consumption from being cut in half, the total reduction in soldiers' expenditures that would result from a doubling of the dollar value of the lira would be only about 700 million lire.

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3. While 700 million lire per month is a large sum, its importance in the inflationary situation can only be assessed by comparing it to those inflationary expenditures that would not be reduced by a change in the exchange rate: the Italian Government deficit and the military expenditures of the Allied forces and agencies for local purchases and the hire of local labor. The Italian Government deficit is now approximately 3 billion lire per month and the military expenditures of the Allied forces are considerably over 500 million lire per month. It is certain, therefore, that reducing soldiers' expenditures by 700 million lire and leaving about 4,500 million of other inflationary expenditures (1,100 million of soldiers' expenditures, the expenditures of the Allied forces, and the 3,000 million deficit of the Italian Government) cannot contribute decisively to the solution of the Italian inflation problem.

D. It is advocated that the existing rate be kept in force when the rest of Italy is won, unless circumstances found at that time clearly indicate that a change is justified.

It is extremely difficult to obtain reliable economic information on northern Italy. Such information as is obtained from prisoners, from refugees, and from the enemy radio indicates that while prices are not as high in northern Italy as they are here, they are already rising rapidly, and the difference between southern and northern prices is rather rapidly diminishing. The sharp rise in prices that occurred in southern Italy last summer was precipitated by the war in this area: by the acceleration of war expenditures, by the disruption of the Government, by the destruction of means of transport and supply, and by the destruction and pillage performed by the enemy in his retreat; the rise has continued since occupation because of the continuance of heavy Italian Government expenditures, because of Allied expenditures, and to a great extent because the effects of the destruction of transport and supply facilities remain with us. All of these factors may be expected to be found in operation in the north of Italy when we arrive. There is reason to believe, therefore, that the rise in prices already in progress in northern Italy will accelerate, and that we will find inflation substantially as bad there as here. There is little reason to believe that a different exchange rate would be found appropriate.

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21 MAY Recd

HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394

13021/F

20 May, 1944

SUBJECT: Material for Discussion at Meeting of the Allied Inflation Committee (Italy) to be held at 9.30 hrs Monday, 22 May, 1944.

TO : All Members of Allied Inflation Committee (Italy).

1. The following material is being distributed for preliminary discussion at the meeting of the Committee to be held on Monday, 22 May, 1944 at 9.30 hours:

(a) Proposals regarding "Reform of the Italian Tax System" attached as Appendix 'B' to the Finance Sub-Commission Report for the month of April 1944. There are no additional copies available of the memorandum in question so it will be necessary to use the copy attached as an Appendix to the monthly report.

(b) Control of Government Expenditures.

(c) Currency Conversion and an Anti-Inflation Tax Proposal.

(d) Deficit Financing, Central Banking, Monetary and Credit Policy.

J. J. LATLER,
Lieut-Commander, USN,
Secretary,
Allied Inflation Committee (Italy).

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CONTROL OF GOVERNMENT EXPENDITURE

INTRODUCTION:

Government expenditures in Italy are responsible for the great share of the income stream of the country, and there is little hope that they will not continue to be responsible for the great share of the income stream for a long time to come.

Thus, the crucial sector of Italy's financial structure for the prevention of inflation lies in the area of the expenditure activities of the government. Such expenditures, however, are very difficult to evaluate and control. The principal determinants of the volume of expenditures during the war will be military and political necessities. In part, some of these expenditures are beyond the control of any government. However, it is the responsibility of the government to restrict expenditures to the minimum necessary to achieve the purposes of the government. To carry out this responsibility, two conditions are prerequisite:

1. An economically-minded Ministry of Finance, conscious of its social responsibilities, which will stand guard to test the economy of each expenditure; and

2. A properly organized system of budgetary control which will enable the government to plan its expenditures, to judge the expediency of particular expenditures by viewing the fiscal situation as a whole, and to enable the government to assure itself that only the scale of expenditures planned are actually made.

At the present time, in liberated Italy, both of these prerequisites are lacking. The Ministry of Finance does not appear to have been sufficiently interested in maintaining controllable expenditures to a minimum. Perhaps, in this period, other considerations are more important. As to the second condition, the lack of a budgetary system of control is due to the separation of liberated Italy from Rome. The system of control was centralized in Rome, and liberated Italy has not had the energy, the personnel, or the urge to set up a new control unit for the Southern third of the country. Thus, it is unfortunate that decisions were made which require waiting for the liberation of Rome before expenditure control was exercised. Much ground has been lost in terms of excessive expenditures already made, in terms of undesirable precedents which will influence the future and in terms of time lost in gaining experience for the reformation of the system in Rome itself. It may be expected that the system of control, subject to twenty years of fascism, will need to be remodeled and re-vitalized. Lessons learned from the mistakes of AMG/ACC administration, as well as those of the Italian Government, must be made to serve as guides to a new and efficient system for controlling expenditures.

One further principle will form the basis of an expenditure control system designed to counteract inflationary movements - that is a principle of delaying to the maximum extent payments of claims arising before a certain date after the [illegible] in accordance with

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One further principle will form the basis of an expenditure control system designed to counteract inflationary movements - that is a principle of delaying to the maximum extent payments of claims arising before a certain date after the war. Such payments should be made only when the cash can be used in accordance with the economic policy of the government; payments which will merely add to the accumulating fund of liquid assets in the hands of the public will have disastrous consequences. Substitution of a non-negotiable, non-interest bearing, long term obligation of the government acknowledging the debt would be the ideal form of payment. The government must attempt to delay payment until the country is again able to produce consumer's goods, and until sound investment possibilities again become available. It is fully recognized that such a policy of delayed payment of claims must be administered with full consideration of the fundamental objective of maintaining government credit on a basis which will be beyond reproach. This objective can only be reached by a policy of prompt payment of current obligations - unless, of course, the obligation is incurred with the understanding of both parties that the payment will be delayed.

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PROPOSALS FOR CONTROL OF EXPENDITURE

The following are a series of proposals which have been drawn up on the basis of experience in Southern Italy. It is not a complete programme, and it can only be made complete after the government has been effectively established in Rome, and further studies made of expenditure policies. These proposals, however, taken

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together, can form a serious barrier to inflation.

(a) Policy towards Payment of accumulated claims against the Government

The most important single item in the expenditure field, and in the inflationary picture, is the problem raised by the unpaid bills of the government and the accumulated claims which will arise from unpaid wages, unpaid pensions, payment for materials, houses, buildings, and services of all kinds requisitioned by the retreating armies as well as the advancing armies, and by both sides of the Italian military establishment; and, above all, in magnitude, looms the flood of claims for war damage.

It is impossible to estimate, as yet, the value of these obligations or claims against the State even in liberated Italy, and, of course, the total amount for the country will not be known until the rest of Italy is liberated. However, by the end of 1942, the fascist government had accumulated a total of 42 billion lire of unpaid bills. The present total is probably nigh higher, although the latter figure provides some indication of the magnitude of the sums involved.

This is not a problem of the future. It is arising every day, and payment policies must be established deliberately instead of being formulated from decisions made in individual cases as they arrive. The latter procedure is not satisfactory because individual decisions may not coincide with broad policies which would be established if the problem were considered in its entirety. For instance: rural claimants for unpaid pensions in liberated Italy presented their claims - of 8 months in arrears - and the Ministry of Finance made the payment in lire. An official of the government on a mission for the Mussolini Government was caught by the advancing Allied army, and after being reestablished in a similar job with the Badoglio Government, presented claims for past wages, travelling allowances, etc. for the periods of work on both sides of the battle lines. In the decree issued by the Minister of Finance establishing pension rights for the Black Shirt militia, the pension rights were made retroactive to the date of dissolution - and these pensions are being paid. Persons have been presenting claims for requisitioned property, some are being paid, others not, but there is no established policy.

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:

(i) Past debts and established claims against the government, whatever their nature, should be paid in cash only when the claimant is able to prove that the cash is needed for approved purposes. Cash payments should be made in that proportion in which immediate need is proven.

(ii) No interest should be paid on unpaid obligations, particularly those for pensions, requisitions and war damage compensation, and

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(ii) No interest should be paid on unpaid obligations, particularly those for pensions, requisitions and war damage compensation, and no adjustment should be made for changes in price levels.

(iii) The settlement of claims should be dissociated from the payment made in compensation. Retroactive obligations arising from any source may be settled at any time, but payment should not be made until the conditions provided in (i) above are complied with.

(iv) The longer the delay in payment, the greater the beneficial effect will be on stabilizing the internal economy.

The disadvantage of this approach to the problem of government obligations is the possibly adverse effect upon government credit. As one offset to this factor, it will be necessary that the government establish a date after which all new and current obligations will be paid promptly and fully. Moreover, the greatly improved financial position of the government to be expected from a frontal attack on the inflation problem, should more than counteract the adverse effect on government credit which may arise. However, it may be desirable for the government to take further safeguards against possibly adverse effects upon government credit. Such a safeguard might be an educational campaign on the necessity of this programme as being part of a general programme to maintain the stability of the value of the lire.

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(b) Payment of Subsidies

The present policy with respect to subsidies is intimately connected with price policy and the efforts to maintain a controlled price system. A flat principle of "no subsidies" would be as inappropriate as the policy of continuation of all past subsidies. Each subsidy must be judged in the light of the overall programme of inflation control, social equity, and the basic objective of stabilizing the cost of living. In appropriate circumstances, subsidies can usefully serve the purpose of breaking the spiral of inflation by concentrating on immediately controllable components of the price-cost structure.

The case of the price of bread is an outstanding example of the continued usefulness of subsidies in the anti-inflation programme. A low price of bread to the consumer is the keystone of the controlled price structure, the control of wages and therefore of the control of costs of production. The price of wheat, on the other hand, is not subject to full control, since agricultural wages are uncontrollable and because the distribution of agricultural produce is only partially controlled. In this situation, a subsidy on the price of bread is an essential element in the programme of price stabilization.

Another example of a useful subsidy, the most useful of all subsidies in the present condition of Italy, is that which is granted for the stimulation of production. A subsidy to high cost producers may be desirable, in order to expand production without increasing the sales price of the product, either because the product enters into price competition as an export, or because it enters into the controlled price structure in Italy.

However, the general principle can be established that subsidies which do not satisfy the test of being indispensible in the maintenance of prices of commodities and services, the maintenance of which has been judged essential, should be dropped after full consideration of the consequences. Particular subsidies should be dropped unless a substantial contribution to the problem of controlling inflation can be demonstrated.

Important subsidies are now being paid to public utilities and railroads, in addition to payments for services rendered to the government, because prices to the public for services have not yet been adjusted to the higher level of cost prevailing in comparison with previous years. Suggestions for price adjustments to eliminate the subsidy and place these governmental or semi-governmental institutions on a self-supporting basis are included in the section on price policy. These subsidies, as will be shown, are not indispensible to the maintenance of financial stability in Italy. A real safeguard to keep government expenditures on subsidies to a minimum is to give full and accurate information to the public on the purposes and amounts of each subsidy granted, whether the granting be direct or indirect.

(c) Service on Public Debt

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(c) Service on Public Debt

The proposals for reductions in the interest rate on government borrowing is presented in detail in the section on Public Finance. The ability of the government to carry the enormous public debt which it will need to assume during the next few years without running the country into the spiral of hyper inflation, is dependent upon the success of the programme to lower interest rates. With the great plethora of liquid assets in the country there is no justification on economic and financial grounds for the maintenance of existing interest rates. High interest rates will not facilitate government borrowing as the Italian experience prior to the Armistice clearly demonstrated. By increasing the danger of inflation in a crucial sector, high interest rates will, as much as any other factor, undermine the confidence of the people in the prospect of avoiding inflation, and thus make it more difficult, not less difficult, to sell government securities to the public. Properly conceived and executed, a vigorous programme to reduce interest rates could have an immense effect on the Italian financial position and strengthen substantially the faith of the people in its basic soundness. It may be argued that lowering interest rates on government securities will drive liquid capital into private investments and put government borrowing at a disadvantage. This argument, however, is not valid in the light of the other

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elements of the financial programme, which must be adopted as a whole if any part is to be appropriate. Those other elements are:

a) reduction of all interest rates, particularly the elimination of interest on liquid bank deposits.

b) prohibition of loans or credit extension for speculative purposes.

c) adequate facilities for the extension of credit for governmentally approved or sponsored programmes. The investment of private funds in these enterprises is to be encouraged with as high - if not higher - priority than loans to the government.

(d) Revision of policy on Pension payments

Pension payments are a major expenditure of the Italian Government and approximate the total expenditures for active governmental personnel. The system of pension payments is an integral part of Italian civil service law and custom, and it is not suggested, of course, that the system be abandoned. In fact, the pension system is one of the few advantages given to this underpaid class of employees of the state. It is possible, however, to ease the burden of the pension system upon the economy of the country during the coming period of inflationary strain. The pension system is not on an actuarial basis, except for minor exceptions, and there is a large net government contribution. At the present time, when government salaries are relatively low, there is little or no flexibility in which anti-inflationary influence can be exercised, through increasing the employees' contribution to the pension fund. For future contingencies, however, it may be of some significance to reorganize the government pension funds in an actuarial basis in which the following principles are established:

a) The employees' contribution will determine the value of the pension to be granted to him.

b) The contribution can be increased, at the request of either a group of employees or of the individual, to provide increased pension benefits. In other words, the pension system can be such as to provide for increased savings on the part of government employees, for which the employee will obtain increased insurance or pension benefits.

c) Place the pension benefits on a basis which is independent of the level of government salaries. At the present time, pension benefits are changed corresponding to changes in government salaries. This arrangement is bad for the civil service, since it makes for inflexibility in handling personnel problems of the government, and in inflationary situations, gives too great purchasing power to the large number of pensioners - only a part of whom could satisfy a "means test".

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[illegible] expenditure for native governmental personnel. The system of pension payments is an integral part of Italian civil service law and custom, and it is not suggested, of course, that the system be abandoned. In fact, the pension system is one of the few advantages given to this underpaid class of employees of the state. It is possible, however, to ease the burden of the pension system upon the economy of the country during the coming period of inflationary strain. The pension system is not on an actuarial basis, except for minor exceptions, and there is a large net government contribution. At the present time, when government salaries are relatively low, there is little or no flexibility in which anti-inflationary influence can be exercised, through increasing the employees' contribution to the pension fund. For future contingencies, however, it may be of some significance to reorganize the government pension funds in an actuarial basis in which the following principles are established:

a) The employees' contribution will determine the value of the pension to be granted to him.

b) The contribution can be increased, at the request of either a group of employees or of the individual, to provide increased pension benefits. In other words, the pension system can be such as to provide for increased savings on the part of government employees, for which the employee will obtain increased insurance or pension benefits.

c) Place the pension benefits on a basis which is independent of the level of government salaries. At the present time, pension benefits are changed corresponding to changes in government salaries. This arrangement is bad for the civil service, since it makes for inflexibility in handling personnel problems of the government, and in inflationary situations, gives too great purchasing power to the large number of pensioners - only a part of whom could satisfy a "means test".

(e) Social security system

The social security system of Italy is quite elaborate, with coverage for old age and invalidism, unemployment, tuberculosis care, marriage and maternity grants, and the system also administers other types of social security, the most important of which is the family allowance. Little information is available at this time as to the operation of the social security system; it is known, however, that in southern Italy, during the present period of AMG/ACC activities it is operating at a high deficit. In 1941 the various branches of social security received more in contributions than they paid out in benefits, with the exception of the family allowance system. The deficit in the family allowances system was so great as to exceed the total surpluses of all the other branches of social security. The family allowance was an integral part of the fascist system. Obviously, it needs to be reviewed from the point of view of adjusting the procedure to conform to the political ideas of the new government, but also, to place the social security system on a self supporting basis during the present and future periods of war and reconstruction.

Social security, and insurance generally, can be an instrument for withdrawing until a future day, liquid assets or purchasing power from the public, and for this reason should be included as a device for the control of inflation. It is desirable that the social security system operate without cash deficits and that during this period of large surpluses of purchasing power in the hands of the public, substantial reserves be built up. This can be done through the following types of action:

(a) Extension of social security by permitting additional amounts of coverage by each individual.

(b) Placing a premium upon delay in drawing profits by granting additional sums for such delay.

(c) Increasing the scale of contributions by classes of persons who can afford to pay the higher scales.

The details for implementing a programme of building up social security reserves needs to be worked out in detail by experts in the field who know Italian practices. The policies of the programme should be adjusted to the present monetary situation, and should be based on the principle of utilizing the social security system to obtain the maximum anti-inflationary effect during this period.

It is assumed that the reserves of the social security system are to be invested in government securities - there is no other type of suitable investment available. A special issue of government obligation might be appropriate, with an interest rate devised to guarantee higher profits for those who delay in claiming current benefits to which they are entitled. A government subsidy of this type would be justifiable on anti-inflationary grounds.

(f) Other Expenditures

There are two other specific suggestions for economy; (1) The abandonment of the "dedication" system whereby the expenditures for a particular project are limited by the income from a particular source. This type of control has proven in experience to be wasteful. If revenues are inadequate for the project, and the project is deemed desirable, pressure is exerted to obtain revenues from other sources; if the revenues are more than adequate, the funds will be spent without regard to economy. (2) The "contracting out" of work which is the direct responsibility of the government, particularly on the collection of taxes, is wasteful. The cost of collecting taxes in Italy through the contracting system has been at least 7% without taking into account excessive delinquencies caused by contributory inefficiency. In countries such as U.S. and U.K., central government collections involve a cost of less than 1%, with a much lower proportion of delinquencies. The same wastefulness is found in other contracts which involve governmental functions.

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The three principal items of expenditure not mentioned above are military expenditures, purchases of domestic supplies and materials, and the civil service. There is little that can be said, beyond the simple admonishments for economy, and for appropriate control of expenditures. Economy in the size of military establishments or in the number of civil service personnel are technical matters which will be decided on a basis other than that of the need for stemming inflation.

Responsibility to public opinion is a most important and vital weapon to achieve a public spirited approach to economy by government officials. The publication of full information on government expenditures, in the greatest detail consistent with military security and with administrative feasibility is the ultimate guarantee that government expenditures will be made productively and economically.

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CURRENCY CONVERSION AND AN ANTI-INFLATIONARY TAX PROPOSAL

Purposes

1. An anti-inflationary measure to reduce the volume of outstanding liquid assets in the country and thereby lessen the pressure on the price control structure.

2. A measure to tax the hidden profits derived directly or indirectly from inflation.

3. To provide information which will serve as the basis for the successful administration of a reformed tax system.

4. To reveal fortunes acquired from collaboration with the enemy or from violations of economic regulations.

5. To give the people confidence in their currency and assurance that inflation will be controlled.

6. To simplify the currency system.

I CURRENCY CONVERSION

Important Steps of the Programme

1. All outstanding metropolitan and AM lire of the denominations of 100, 500 and 1,000 will be presented for conversion into new Italian currency.

2. Each person or family will deliver all currency holdings of the specified denominations within a specified period of several days. Subsequent to the deadline fixed, the specified currency will cease to be legal tender.

3. The procedure of conversion must be simple to be feasible administratively, especially since it will be combined with the application of the anti-inflationary tax. Such a procedure would be the following:

a) Persons without bank accounts or postal savings accounts will:

1) Present old currency, counted and amount stated;
2) Sign statement as to ownership of government securities;
3) Be assessed and pay the tax - deducted from the amount of old currency presented;
4) Receive new currency.

This simple procedure, which can be carried out in a few minutes for each person, would dispose of the great bulk of the population. To further simplify the problem, persons may convert by depositing the old currency in a new bank account and utilize that procedure.

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b) Persons with bank accounts or postal savings accounts will:

1) Deposit the old currency in one of the accounts;
2) Sign statement declaring possession of other accounts and of government securities;
3) Have freedom of withdrawal in new currency of 50% of the account in which deposit of currency was made, but not more than 50,000 lire, until tax is assessed and paid;
4) Tax will be assessed and collected as soon as possible administratively, after which the accounts will be freed completely;
5) Register all government securities to satisfy condition for receipt of interest.

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It should be permissible to pay the tax in government securities, at par value. The problem of avoiding multiple conversion is relatively simple in view of the fact that every person carries an identification card, and most persons carry rationing cards. A stamp applied to either or both cards will prevent a person from making more than one conversion. If one person wishes to make more than one conversion, the second or later conversions can be accepted, and held in suspense until the tax can be correctly computed - assuming the tax to be progressive.

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4. Banks and receiving institutions will be provided with a new Italian currency of the denomination of 100, 500 and 1,000 lire. There may be enough new currency on hand to carry out the full programme, and thus avoid the complication of rationing. If not, then withdrawals from banks may be limited to 10,000 lire per month, or some other appropriate figure, and direct conversions in excess of 5,000 can be made by forcing deposit of the excess in a bank account.

II ANTI-INFLATIONARY TAX

1. An anti-inflationary tax can be applied as part of the conversion programme. The tax can be assessed on all holdings of currency, bank deposits, and government securities. It will be progressive in nature and sufficiently severe to contribute materially to reducing the pressure of liquid assets on prices. The following schedule is suggested:

Amount of Holdings (lire)	Tax Rate (percent)
First 5,000 or under	10
5,000 to 100,000	20
100,000 to 1,000,000	40
1,000,000 to 10,000,000	60
over 10,000,000	80

The taxes can be payable immediately on conversion of currency holdings for those conversions which are not complicated by computation of deductions. Other and more complicated conversions can have the tax assessed during ensuing months, giving the persons freedom to utilize a percentage of their deposit account which will safeguard the full tax liability.

2. Certain exemptions and special provisions will be necessary to make the above programme effective. Banks, insurance companies, railroads and all government owned or operated institutions including the State, Provinces and Communes, will not be subject to the tax. Their bank accounts will be freed, and conversion of their currency can be carried out directly. This will not only simplify the programme materially but omit a large sector of the economic and financial life of Italy, the taxation of which would not contribute to solving the inflation problem. Fascist institutions presumably will have been dissolved or will be in the process of dissolution and the relevant assets appropriated by the Italian Government. Other institutions which have been guilty of inordinate cooperation with the Fascists will also be treated separately. Eleemosynary, religious, educational and other similar institutions can also be exempted from the tax.

3. Deductions of personal liabilities in excess of some administratively feasible figure (say 5,000 lire) could be allowed. If deductions of such items were claimed, the taxpayer would be required to list all the claims he owned against other persons [illegible] be allowed of the excess of

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3. Deductions of personal liabilities in excess of some administratively feasible figure (say 5,000 lire) could be allowed. If deductions of such items were claimed, the taxpayer would be required to list all the claims he owned against other persons in excess of 5,000 lire, and deductions would only be allowed of the excess of liabilities over such assets.

4. The continued and efficient operation of private business enterprises is essential and such elements can be subject to special tax arrangements. Persons or companies - excluding agricultural enterprises - can convert the taxable assets with a deduction of the tax against 3,000 lire for each employee continuously on the payroll for 6 months preceding the date of publication of the programme. An additional exemption may be provided for operating materials and supplies, based on purchases made during an appropriate period prior to the date of publication of the programme.

In the case of large corporative enterprises, the progressive rate of taxation may be too severe. In such a case, a flat 50% tax may be applied.

5. Special provisions can also be applied to farmers. No general exemption will be granted to owners of farm property used in the cultivation of crops not subject to assessing. For labourers employed by such persons, an exemption equal to one months pay for each worker will be allowed. Should the programme be made effective just subsequently to a harvest, the new proceeds may be exempted from all taxes provided for under the programme. Owners of crops subject to assessing will receive an exemption based on the period of time which has elapsed since the previous harvest. If the harvest took place 6 months previous to the effective date of the programme

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the farmers will have 6/12 of the sum received from the amassing organization. Labour on such farms will be treated the same as for farms whose produce is not subject to amassing. In both cases, holdings of government securities will receive no exemptions. The value of those securities will be added to the value of unexempted currency and bank deposits and the total subject to the general schedule of taxes provided for above.

III PUTTING THE PROGRAMME INTO EFFECT

1. Any drastic programme to combat inflation - just as inflation itself - is bound to create injustices. Although a certain amount is inevitable, an attempt will have to be made to distinguish between persons whose holdings of currency, bank deposits, and securities represent a life time of saving and those who directly profited from the inflation of recent years. One possibility is to invite declarations for refunds, based on frozen holdings of the taxable assets on a prior date - the date might be 10 June, 1940. Very low tax rates could then be levied on those holdings in the lower value brackets which were accumulated primarily before the outbreak of the war (10 June, 1940) and refunds granted.

2. The effects of the programme on government credit and the market for government securities must also be considered. It is highly important that the programme should not adversely affect the government's power to obtain needed funds. However, this result need not follow. The tax would remove all doubts as to the government recognizing the prior issues. The simplification of the outstanding polyglot currency circulation will tend to add confidence in the government's financial position. More important, the Government will actually strengthen very considerably the financial structure of the country by reducing the pressure on the price structure caused by the inflated volume of liquid assets. Reduction of the volume of currency in circulation, combined with the taxation of inflated property holdings, therefore, should strengthen not weaken government credit. The Government debt burden will be considerably lightened.

3. It is important that essential economic activities continue during and subsequently to the period of conversion and taxation. The programme will not disrupt the economic life of Italy. Provision will be made for payments of wages and salaries to farm and urban labour. The mass of people will not be subject to excessive taxation and will continue to have adequate purchasing power to acquire basic necessities. It is unlikely that either industrial or agricultural output will be lessened by the tax programme. There will be strong incentives to expand output. Labour will be plentiful, demand strong, and assuming materials and equipment can be obtained, business enterprises will be eager and able to continue their business activities. Prices may tend to decline, particularly for commodities which have been withheld from the market in expectation of a further internal depreciation of the lira. Farm products may be included in this category. In general, the programme should engender confidence in the financial position of the Italian Government, and in this sense, facilitate the return to vastly improved

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4. To put the programme into effect, new currency is necessary. Arrangements have already been made with Washington for this purpose. The quantity of currency required for conversion of all outstanding Metropolitan and AM lire of the denomination of 100, 500 and 1,000 can only be roughly approximated. There are roughly between 175 and 200 billion lire in circulation at the present time. Of this 10 to 20 per cent would be in denominations not affected by the conversion and tax programme. Therefore, about 150 to 170 billions of lire would be withdrawn from circulation. New currency, however, would not be required up to these amounts. All deposits of currency would be subject to the tax schedule provided above. Thus a person turning in 5,000 lire in outstanding lire would only receive 4,500 in new currency. The amount of currency will increase with the size of the holdings. The maximum new currency required during the conversion period will probably be in the neighbourhood of 75 to 100 billion lire. This would exceed the amount required to pay every family in Italy 5,000 lire, which obviously will not be necessary. To make certain there will not be shortage of currency, all holdings in excess of 5,000 lire may be rationed for as long a period as may be necessary.

5. It is essential to the effective operation of the currency conversion plan

that the utmost secrecy be preserved in advance of execution of the programme. Obviously, persons having advance notice will be afforded opportunity to circumvent the tax by converting cash, bank accounts and government securities into non-taxable forms of property. Some evasion of this sort is inevitable, and some leakage of information is probably to be anticipated. It therefore would seem necessary to give administrators of the plan discretionary power to declare invalid, for purposes of the tax, any transactions in property occurring less than, say, 30 days before the conversion period.

6. The date fixed for putting the programme into effect should be carefully selected, for this programme can be applied once, and once only. It should be determined by the following considerations:

a) The date on which the new currency is physically available in Italy for the conversion operation;

b) The programme can be most effectively put into effect simultaneously for all parts of Italy;

c) The date fixed should be appropriately related with the timing of other parts of the stabilization programme and at the crucial stage in the inflationary movement.

The conversion and tax plan proposed in this section, although drastic, should constitute an integral part of a vigorous programme to rehabilitate the Italian financial structure.

IV OTHER ASPECTS OF THE PROGRAMME

The proposal to tax currency, bank deposits, and government securities should be integrated with other parts of the stabilization programme. When the steps outlined above are taken immediate results will be achieved in the Italian Government's financial position.

a) A substantial part of the outstanding lire circulation will be retired;
b) Italian currency system will be simplified;
c) Italian debt will be reduced, thereby reducing the interest burden and aiding to restore confidence in state finances;
d) Pressure on the Italian price structure will be materially lessened.

Further complementary measures can also be taken. It is provided that a property declaration must be filled out by persons claiming deduction of personal liabilities in excess of 5,000 lire. This information should prove of considerable value in the application of the reformed tax system, supplying data on which penalty taxes can be based. The information obtained from the declaration can be used to assess penalties on persons who have acquired property illegally or through political collaboration with the Fascists and Nazis.

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DEFICIT FINANCING, CENTRAL BANKING,
MONETARY AND CREDIT POLICY.

A. Objectives

The modernization of the public debt structure of the government, basing the character of the debt upon the confidence of the people in the government and its financial policies, will be an important instrument in controlling inflation, and is indispensible for the efficient functioning of the financial and economic life of the country. Under the fascist regime the government resorted to secret borrowing from public financial institutions for funds to meet its hidden deficits, and the people could have no confidence in the financial policies or the financial stability of the government. Interest rates on all debts, including deposits of monies in banks, were kept artificially high by the banking cartel, impeding economic development and burdening the government's finances. Banking control, under fascism, existed in form but little in content, although banking controls to prevent speculative borrowings are a prerequisite to financial stability.

The modernization of the public debt, and of the banking and credit system would have the following specific objectives:

1. The government should attempt to offset the new income created by the excess of government expenditures over revenues by financing its deficit through securing funds which are saved by the people out of current income.

2. At the present time, the Italian people are accumulating a continually increasing mass of liquid assets which represents a potential threat to any stabilization of prices. An attempt should be made to transform these highly spendable assets into government bonds of relatively long-term maturity and inflexibility of redemption thus removing them out of potential immediate participation in the commodity and speculative markets.

3. The public debt should be placed on a sounder basis by securing longer-term funds and so eliminate the growing potential danger to the government's credit position resulting from a constantly growing mass of floating debt. The growth of this debt, which is always coming due, exposes the government to the peril of a financial crisis at any temporary fluctuation in public confidence which might result in a stoppage in renewals. At the same time, borrowing should not be made at too long a term. The opportunity to refinance the debt at lower rates when the situation has further improved in the future should be left open to the government.

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4. In order to put pressure on the government to finance itself by non-inflationary means, borrowing from the central bank should be made less easy.

5. The government expenditures necessary to service the public debt should be cut down by reducing the cost of new borrowing for the government through a decrease in the interest rate paid on government securities.

6. Banking policy should be guided to prevent credit being extended to finance speculative activity in the purchase and with-holding stocks of commodities from sales to await higher prices, or to finance activity or construction which will result in any way in the bidding up of prices rather than in increased production.

7. Credit should be available to finance approved productive activity.

8. The anonymous "bearer" feature should be removed from financial operations and thus potential governmental scrutiny of all large financial transactions should be made possible for control as well as for taxation purposes. 39

9. Public confidence in the financial system should be established by adequate publicity of pertinent financial information.

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B. Deficit Financing

1. Present Situation

The Italian government deficit is now being principally financed by various forms of advances from the central bank and by the sale of very short-term government securities, Buoni del Tesoro ordinari, of 1 - 12 months maturities. Except for postal savings bonds, the B.T.O. are the only government security now on sale. No bond-selling campaign, to draw savings into investment in government securities exists.

2. Programme of Government Borrowing by Sale of securities to the Public

The number of types of government securities offered for sale should be increased from the present single type to enough different types to fit the needs of all investors. There should be a pattern of securities with varying maturities, varying interest rates, and lottery features.

(a) The emphasis of the programme should be placed on one standard security to be offered to the general public such as the American War Savings Bond or the British National Savings Certificate. This type of public security, as described below, is already familiar to the Italian public, having been used in the Postal Saving's system.

(1) The war savings bond would be sold at a discount with interest accumulated over the whole term of the bond and redeemed at par on maturity. The bond should be non-negotiable but be redeemable on 60 days notice. However, there should be a financial incentive to encourage the public to hold the bond to maturity. The most simple incentive is one which provides that if the bond is redeemed before maturity, the interest rate per annum paid would be considerably less than that paid, if held to maturity. Another possibility is to pay a bonus upon maturity, and this bonus could be fairly substantial to provide a real incentive for holding the security until maturity.

(2) The war savings bonds should be sold at a considerably lower rate of interest than that which the Italian government has paid in the past for five and ten-year money. At the same time, the rate cannot immediately be cut too drastically below what has been regarded as a normal interest rate for the government to pay. It is suggested, therefore, that the rate paid on the war savings bond designed for sale to the general public should be 4% per annum when the bond is held to maturity; or possibly 3½% with a bonus bringing the effective rate to 4½% or even 5% if held to maturity. This rate compares with the last issue of 5 and 9 year bonds at 5.69% and the present sale of Buoni del Tesoro ordinari of 10 - 12 months maturities at 5%.

(3) The maturity suggested is 5 years and 10 years. This would [illegible] short enough period to allow

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(3) The maturity suggested is 5 years and 10 years. This would tie up savings for the war period and yet be short enough period to allow the government to re-finance its debt at a still lower rate within a few years as its control over the money market becomes more efficient and public confidence in the lira becomes stronger.

(4) The war savings bonds should be sold in denominations of 1,000 lire, 5,000 lire, 10,000 lire, 50,000 lire and 100,000 lire to reach as wide a public as possible, and yet not create too great an administrative burden.

(5) Since the war savings bonds are primarily designed for the general public and will be a more favourable security than other government issues, they should not be sold in unlimited quantities to any one investor and should not be available to banks or other financial institutions. The amount which can be purchased by any one investor in any one year should be limited to some definite ceiling, perhaps 500,000 lire, or a maximum total holding of perhaps 1,000,000 lire.

(b) At least one predominantly lottery type of security should be available for sale. Italians are accustomed to a partial lottery feature in their government bonds and experience in other European countries has shown the popularity

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of such securities. A possibility would be a five year and ten-year bond paying a fixed rate of 1½% with semi-annual drawings for a large number of fairly large prizes. As an offset to the attractiveness of the lottery features, the total cost to the State including both interest and the total cost of the lottery prizes, should not be higher than 3 per cent.

(c) Also a minimum of one type of negotiable, but registered, security paying a fixed annual income for large investors and banks should likewise be available. The rate on this security should be the same as that paid on the old Italian consols and that which the Italians have tried in the past to establish, that is, 3½%. This rate suggested is below that suggested for the savings bond rate as an offset for the annual income feature of this security. The term of this security should be five and ten years, with a slightly higher rate on the latter.

The securities suggested above would be on sale at all times and handled by the Postal Saving's System and by the banks without charge to the government as a public service. An active campaign of bond-selling to the various sections of the public and to the banks should be begun as soon as possible. In addition, special drives to sell these issues should be made from time to time. Preparations should now be made for the bond issue designed for the general public and a selling campaign to take advantage of the patriotic enthusiasm which will follow the continued growth of democracy in Italy and from the liberation of Rome and of northern Italy, and Allied victories in other parts of Europe.

(d) The rates paid on Buoni del Tesoro ordinari, now 3½ - 5% for 1 - 12 months maturities, need to be reduced to encourage investment in longer-term government securities. An initial reduction of at least 2 per cent all along the line should be put into effect. Further reductions should be made as conditions improve, particularly in the shorter maturities.

(e) The public debt issued by the fascist government prior to 25 July, 1943 should be converted into new registered government bonds paying 3%. As the bulk of the fascist government-issued debt matures within the next nine years, no change in the maturities might be made for most of the issues. The 5% Rente should be converted into a 10-year bond. There is a certain amount of expectation that the fascist debt will be entirely repudiated. As the decision was taken to service such bonds, the issue of repudiation has been settled. However, the income should be cut by conversion from the usual nominal 5% to 3% to reduce the interest burden on the government and not to discriminate in income in favour of the lenders to the fascist government as against lenders to the present government. The bulk of the existing debt is in the form of bearer bonds making any possible control or taxation measures difficult to enforce. The conversion into registered bonds would make control and taxation measures simpler.

(f) Active support should be given by the Banca d'Italia to the market for government bonds to maintain prices and yields on government securities, to assure the government of a market for securities at a rate known in advance, and to encourage investment in government securities by making them a safe and reliable investment.

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(1) The Banca d'Italia, in the past, has apparently never attempted to support the government bond market. In fact, its attitude in practice was such as to be a depressing influence on government bond prices. The Banca d'Italia should engage in whatever open-market operations are necessary to maintain stability of price levels of government securities. It is anticipated that the Banca d'Italia will engage in selling as well as buying operations; the principal objective would be to even out short-run fluctuations. However, during the coming months of inflationary danger, the Bank should be permitted to step into the market to buy large amounts in an emergency. A programme of this kind should be planned directly with the Ministry of Finance, and be subject to its complete control.

(2) As a further measure of Banca d'Italia support for the government bonds, the Banca d'Italia should value government securities at par or close to par in making advances which are secured by government bonds, compared to the usual practice of allowing around 50 to 60% of par. This will require a decree to this effect as the statute of the bank prohibits

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advances of more than 85% of par on any type of security. The borrower should be required to maintain a minimum balance at the bank large enough to prevent him from drawing more than 90 - 95% of the market value of the security.

(g) The Banca d'Italia should cease competing with government securities as an outlet for available bank funds. All payments of interest by the Banca d'Italia on the funds it holds for banks should stop. Direct pressure should be placed on the banks to invest the bulk of the money now held by them on deposit with the Banca d'Italia in government securities.

(h) Direct pressure should be put on banks by the Banca d'Italia to overcome their distaste for investment in government bonds. Italian banks appear to be still operating under the out-moded theory, exploded in practice long ago, that liquidity of the banking system depends upon the banks owning a mass of short-term assets which are constantly running out and being renewed. Actually, the ability of the banking system as a whole to meet any demands upon it depends upon the smooth-working of the economic system and upon the ability of the central bank to meet any extraordinary demands upon it by the banks. The true reserve of the Italian banks is their line of credit at the Banca d'Italia. The desire of the banks to hold only short-term assets and to avoid investment in government bonds is completely untenable and their policy should be changed.

(j) Just as in the case of the Banca d'Italia, the banks should be instructed by the Inspectorate to value government securities at par or close to par in making advances which are secured by government bonds. Likewise, however, the borrower should not be allowed to draw more than 90 - 95% of the market value of the securities.

(k) A great deal of hesitation among Italians today towards investing in government bonds stems from the belief that the anti-fascist government may repudiate the public debt incurred under fascism. As the decision has already been taken to service this debt, a clear public commitment should be made by the government that it will honor the public debt incurred under the Mussolini government up to 8 September and that it will honour all debts incurred by the Badoglio government since then.

The government, through appropriate channels and with organized campaigns, should educate the people that the purchase of bonds is recommended as an important part of the fight against inflation and that the government is committed to the policy of stabilizing the external and internal value of the lire.

3. Borrowing from the Central Bank

(a) The complete ease of borrowing from the central bank by the government should be removed. The Mussolini government and the Badoglio government, rather than attempting to raise revenue and attempting to finance the deficit by borrowing savings from current incomes, have resorted to the easy and usually inflationary method of war finance of borrowing from the central bank. It is not [illegible] all direct credit extension by the central bank to

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(b) Complete and current publicity should be given to the amounts and conditions of central bank loans.

(c) Temporary advances of the Banca d'Italia are already limited to 1,000 million lire. Over-draft on government current account should be included as coming within the maximum of the temporary advances.

(d) All extraordinary advances should be authorized only by published governmental decree (when the military situation permits). In such a decree, the provisions for repayment should be clearly specified.

C. Control over Credit Policies of Banks

1. Present situation

(a) The Banca d'Italia, which has wide powers over credit policies of

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the other credit institutions, has already instructed its branches to keep watch over the credit policies of the banks and to prevent loans from being made for non-essential, speculative purposes, and for activity for which materials and labour is lacking. The branches of the Banco d'Italia have been directed to make frequent inspections of the other banking institutions to make sure that these instructions are being obeyed. The banks are being required to furnish monthly statements of condition and to report in detail on every single credit operation involving more than 500,000 lire. An Inspectorate representative is being appointed to work with the head office of the Banco di Napoli and one with the Banco di Sicilia.

(b) The Italian banks do not usually engage in intermediate and long-term financing of industrial enterprises, this being done by the government-owned Istituto Mobiliare Italiano and Istituto per la Ricostruzione Industriale. I.M.I. and I.R.I. have not been re-activated as yet in liberated Italy. As a temporary measure to provide any necessary financing for industrial enterprises, the Minister of Finance was authorised in December 1943 to guarantee bank advances to industrial enterprises to a total for all advances of 1,000 billion lire and to pay up to 3 per cent of the interest rate payable on such loans.

(c) The agricultural credit institutions in Italy are primarily organized on a regional basis and these institutions in liberated Italy are available now to meet agricultural needs. However, there is some doubt as to the adequacy of the services available in terms of the new agricultural policies to be adopted, and there is considerable doubt as to the effectiveness of the controls to deal with the inflationary situation rapidly forming in rural regions.

2. Exercise of Banca d'Italia Control over Credit Institutions

(a) The most important aspect of control over banks is the prevention of extension of credit for speculative purposes. The policies which have been laid down by the Banca d'Italia since liberation, and the credit control machinery which has recently been established represent a considerable measure of progress. At the present time, however, there is much to be done to improve the efficiency with which the programme is being administered.

(1) The Office of Coordination of the Banca d'Italia needs to be expanded to be able to follow the developments in the field. The detailed statistics of movements in credit extension have to be compiled and analyzed and used in the work of control.

(2) The work of the Banca d'Italia branches in controlling the other banks has to be constantly reviewed and stimulated. The Ministry of Finance should appoint an official to assume the responsibility for supervising the Banca d'Italia work in this field.

(b) To strengthen the position of control of the Banca d'Italia as against the other banks and to make it more truly a banker's bank, the Banca d' [illegible] which competes with

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(b) To strengthen the position of control of the Banca d'Italia as against the other banks and to make it more truly a banker's bank, the Banca d'Italia should be forbidden to engage in any banking business which competes with other banking institutions. At present, the Banca d'Italia is a competitor of the banks in accepting certain deposits and in making advances to private individuals. Stopping such competition will strengthen the moral authority of the Banca d'Italia vis-a-vis the other banks and make a policy of control easier.

(c) The Banca d'Italia 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. Any large loans to be made by commercial banks should be cleared with the Banca d'Italia and by it with the appropriate agencies concerned. Similarly, any financing necessary for activities in which these agencies are interested and for which commercial banks do not wish to provide should be taken up with the Banca d'Italia for appropriate action.

3. Control of Inspectorate and its functions

The question arises as to whether the Banca d'Italia is the best agency to supervise this control over credit to prevent borrowing for speculation. Under fascism, the Inspectorate was an independent organization which carried out its functions using the personnel of the Banca d'Itali and in practice was under the supervision and control of the Banca d'Italia. This arrangement probably served

well the purposes of the Fascist regime, since there was no conflict of policy between the government and the large banks. However, the control over credit extensions, which involve curtailing the profitability of banking operations, does involve a policy which is contrary to the interest of banks, and this can best be experienced by a completely independent agency. Furthermore, the application of the credit control policy involves "police" duties which, if effectively applied, will injure the status of the Banca d'Italia as an advising and guiding agency to the banking system.

For the above reasons, full consideration should be given to the advisability of transferring the Inspectorate to the Ministry of Finance. The Banca d'Italia could continue with its statistical service.

4. Other Measures of Control over Banks

(a) Except for the Banco di Sicilia and the Banco di Napoli, the branches of the largest Italian banks in this area (Banca Commerciale Italiana, Credito Italiano, Banco Nazionale del Lavoro, Banco di Roma) are not subject to any formal centralized direction, as the head offices of these banks are located in Northern Italy. Except for the control exercised by the Banca d'Italia branch in their area, the branches of these large banks are free each to pursue its own credit policy. The Naples branch of each of these branches is being stimulated to act as a temporary head office to lay down basic policies and to supervise the activities of the other branches. This will also make the control of the Inspectorate easier to exercise, as it can then be applied through a single head office rather than on a multitude of branches. As the Inspectorate personnel of the Banca d'Italia in some of the branches is rather weak, control of the branches of the other banks from a central headquarters is particularly important.

(b) There are branches of four banks operating in liberated Italy (Banco di Sicilia, Banco di Napoli, Banco Nazionale del Lavoro, and Monte dei Paschi di Siena), which do not have any share-holders and whose profits are allocated, in general to various philthropic and social purposes, which in the past included such projects as assisting in financing fascist party organizations. As a temporary measure of control over these profits, they should be deposited in a blocked account with the Banca d'Italia from which disbursements may be made only for purposes approved by the Minister of Finance. The ultimate disposition of these profits will probably be the government. It should be pointed out that the amount of profits would grow to a substantial size if interest on deposits decreased and the banks buy large amounts of government bonds. The question of the ownership of the profits is beyond the scope of this memorandum.

(c) The majority of the stock of the Banks of National Interest (Banco di Roma, Banca Commerciale Italiana, Credito Italiano) is owned by I.R.I., the government credit corporation. As the head offices of these banks are in northern Italy, an accurate determination of the profits cannot easily be made. The profits of operations in liberated Italy which are ascertainable should be invested in government securities and held at the Banca d'Italia for final disposition.

(d) With the above measures of control available, control over banks by

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(a) Except for the banks of Sicily and the Banco di Napoli, the branches of the largest Italian banks (Banco di Roma, Banca Commerciale Italiana, Credito Italiano, Banco di Santo Spirito, Banco di Roma) are not subject to any formal centralized direction, as the head offices of these banks are located in Northern Italy. Except for the control exercised by the Banca d'Italia branch in their area, the branches of these large banks are free each to pursue its own credit policy. The Naples branch of each of these branches is being stimulated to act as a temporary head office to lay down basic policies and to supervise the activities of the other branches. This will also make the control of the Inspectorate easier to exercise, as it can then be applied through a single head office rather than on a multitude of branches. As the Inspectorate personnel of the Banca d'Italia in some of the branches is rather weak, control of the branches of the other banks from a central headquarters is particularly important.

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(d) With the direct measures of control available, control over banks by use of required reserves held at the central bank does not appear to be necessary at present. However, the direct measures of control have not been very efficient in Italy. The use of the reserve technique should not, therefore, be neglected. It is suggested that an initial reserve requirement be set of 10% against all sight deposits, deposits in current account and assegni circolari and other assegni in circulation. At present, a reserve in the form of government securities is held against the assegni circolari and the assegni bancari a copertura' garantita. This type of reserve requirement might be eliminated.

(e) All types of bearer pass-books and bearer savings bonds issued by banks should be forbidden, to eliminate the use of this easy method for evasion of taxation and controls.

5. Decrease in Interest Rates

(a) Investment in government bonds and in savings deposits should be encouraged by the abolition of the payment of interest on sight deposits by all banking institutions and by the postal savings offices. The definition of sight deposits should include all deposits which may be withdrawn by giving notice of

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withdrawal of 30 days or less. At present, 1½ per cent is paid on sight deposits by the banks and by the postal savings offices. The Banco d'Italia is an even worse offender as it pays 1½ on sight deposits, 2½ on deposits requiring 8 days notice, and 3% on deposits requiring 15 days notice.

This action would divert at least some of the holdings of demand deposits into government bonds and savings deposits. It would thus freeze some part of the large mass of existing highly spendable liquid assets.

(b) Rates paid on savings and time deposits by banks now as high as 3½% for some types of deposits, should be lowered to a rate below the government bond rate. More important would be a decrease in the rate paid on postal savings bonds which now is 5% after the bond has been held a year. The rate should be lowered perhaps 1% below the new government borrowing rate of 3½ - 4%.

6. Industrial and Agricultural Long-Term Financing

(a) Long-term approved agricultural and real estate credit needs should be well taken care of by the existing organizations in this area. It is particularly important that agricultural credit policy takes into full account the danger of inflationary use of credit. Supervision should be exercised by the Inspectorate to see that this function is properly handled and does not degenerate into loans for speculative purposes.

(b) Industrial financing other than short-term, is not usually a part of the normal banking business in recent Italian practice but is handled by special government agencies. The present limited temporary arrangement of government guarantees for bank loans of this character should be sufficient for the present until Rome is reached and the needs for industrial financing are much greater. At that time, the government industrial credit organizations, the Istituto Mobiliare Italiano and Istituto per la Ricostruzione Industriale should be activated to accomplish this mission.

(c) The official discount rate of the Banca d'Italia should be lowered from the present 4½% to 2%, probably in several steps of ½ - 1% each. This will reduce the interest rates charged by banks on approved non-speculative loans and lower the costs of essential commerce and production. The interest rates charged by the banks depend directly on the official discount rate, being calculated as the official discount rate plus x per cent.

The artificially high rates now being charged generally are around 6, 7, 7½ per cent and higher depending on the type of loan. These rates were fixed in relation to a government borrowing rate of 5.69% for 5 - 9 year money. With this rate structure, bank purchases of government bonds were still rather disappointing. A reduction in the government rate to 3½% (or 4% for savings bonds) should bring with it a greater reduction in other rates. A decrease of 2½% in the Banca d'Italia discount rate is, therefore, called for.

7. Credit Operations Outside of Banking and Credit Institutions

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7. Credit Operations Outside of Banking and Credit Institutions

(a) All credit and loan transactions which take place outside of the banking and credit institutions must likewise be controlled to eliminate the possibility of inflationary credit activity taking place. All loans and extensions of credit in excess of 50,000 lire taking place outside of the institutions under supervision of the Inspectorate should be resisted in order to obtain legality and be enforceable in law.

(b) This control feature may become of real importance if inflationary movements make headway in the country. Unfortunately, it will mean further restrictions and controls in a country which is tired of restrictions and which, presumably, is moving towards democracy and liberalism in government. But control over credit is of fundamental importance, and this feature of control may justify stern police measures.

(c) The mechanism suggested of registration of loans to obtain enforcibility in law and the courts, may be adequate control. If not, more direct mechanisms and penalties will need to be devised to handle the problem if and when it arises. The organization best suited to administer the programme would be the

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Inspectorate, particularly if the Inspectorate is dissociated from the Banca d' Italia, to prevent this control from being used to establish a banking monopoly over credit extension.

D. Timing of Programme

1. Work should be begun immediately by the Ministry of Finance to prepare the issue of the war savings bond for the general public and the 3½% bond for large investors and banks. The two bonds should be ready for launching in a bond-selling drive to be initiated with the liberation of Rome. At the same time, the measures of support for the government bond market, and the decreases in the rates of interest on competing investment should be put into effect. The decrease in rates might be effected after the announcement of the new bond issue to strengthen the government's credit position by driving the new securities above par.

2. The conversion of the existing fascist public debt to 3% registered government bonds should take place as soon as possible after the liberation of Rome. It might be coordinated with the carrying through of the plan for an over-all currency conversion and anti-inflation tax. At the same time the government should make a clear public commitment that it will honor this debt incurred under fascism.

3. The measures to reduce the ease of government borrowing from the central bank should be applied concurrently with the war savings bond selling drive.

4. The new measures of control suggested over the banking institutions outside of the Banca d'Italia should be taken now, as soon as possible, and steps to improve the efficiency of the existing controls should likewise be immediately taken.

5. Publicity on government finances could begin immediately on some aspects; the rest to be introduced piece-meal as conditions make it possible.

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March 21, 1944.

The Honorable

Cordell Hull,

Secretary of State.

My dear Mr. Secretary;

In connection with my return to Washington to discuss with you and other interested officials the economic problems of the Allied Control Commission for Italy, I should like to make special mention of the subject of inflation. The problem of rising prices and their relation to the rate of exchange for the lira, as well as to other factors, is of such nature and importance as to warrant serious consideration.

As you of course know the exchange rate of the lira for liberated Italy has been set by the Allied authorities at 100 lira to the dollar and 400 to the pound sterling. This gives the lira an exchange value of less than one-fifth of that which it had at its former official rate of approximately 19 to the dollar. There has been and continues to be a great deal of controversy over the new rate; many experts and others concerned, including the Italian government and especially its Ministry of Finance, believe that the lira has been substantially under-valued. Those holding this view urge that even now an upward readjustment would be desirable in order to minimize the possibility of a disastrous currency inflation which, if allowed to develop, will not only be detrimental to the Allies but will also provide the enemy with effective propaganda for use in portions of Europe not yet liberated.

In view of the importance of this subject I have asked members of my personal staff to prepare a memorandum entitled "Inflationary Developments in Liberated Italy". This memorandum presents the available pertinent factual background on the subject, obtained in large part from the Finance Sub-Commission of the Allied Control Commission and from AFA (Allied Financial Agency).

Information and ideas put forward by the Italian government and its responsible officials were considered to the extent they were deemed suitable and useful. My inquiries and the substance of my views have been discussed at length with the Acting Chief Finance Officer of the Allied Control Commission and with his principal assistants.

The economic situation in Italy is characterized by a dramatic rise in prices which threatens to develop in a manner reminiscent of the tragic currency depreciations which followed the last war. An increase in the cost of living has been proceeding at a rather moderate rate from the outbreak of the present European war in 1939 until the middle of 1943. Since the Allied landing in Sicily the rate of increase has been greatly accentuated. For instance, the Finance Sub-Commission has prepared a study of food prices in Naples which takes into account legal prices to the extent of the rations available and "black market" prices for the balance of [illegible]

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[illegible] rate of exchange for the lira, [illegible] factors, is of such nature and importance as to warrant serious consideration.

As you of course know the exchange rate of the lira for liberated Italy has been set by the Allied authorities at 100 lire to the dollar and 400 to the pound sterling. This gives the lira an exchange value of less than one-fifth of that which it had at its former official rate of approximately 19 to the dollar. There has been and continues to be a great deal of controversy over the new rate; many experts and others concerned, including the Italian government and especially its Ministry of Finance, believe that the lira has been substantially under-valued. Those holding this view urge that even now an upward readjustment would be desirable in order to minimize the possibility of a disastrous currency inflation which, if allowed to develop, will not only be detrimental to the Allies but will also provide the enemy with effective propaganda for use in portions of Europe not yet liberated.

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The economic situation in Italy is characterized by a dramatic rise in prices which threatens to develop in a manner reminiscent of the tragic currency depreciations which followed the last war. An increase in the cost of living has been proceeding at a rather moderate rate from the outbreak of the present European war in 1939 until the middle of 1943. Since the Allied landing in Sicily the rate of increase has been greatly accentuated. For instance, the Finance Sub-Commission has prepared a study of food prices in Naples which takes into account legal prices to the extent of the rations available and "black market" prices for the balance of minimum requirements. This study is the basis of an estimate by the Finance Sub-Commission that the food element in the cost of living in Naples increased at the rate of about 5% per month between June 1942 and June 1943, but that since the latter date it has increased sevenfold. Naples, the largest metropolitan center, has experienced the most severe inflationary price rise but the increase has been considerable, in varying degrees, throughout the liberated territory.

From another point of view it is to be noted that during the months since the first Allied landing in Italy, much of the attention of the economic agencies of the Allied Control Commission and the Allied Military Government has been directed toward resisting price increases. The official price policy, formulated at Naples at the end of 1943 and confirmed by Allied Forces Headquarters shortly thereafter, emphasized general resistance to price increase, "holding the line", even when this necessitates substantial government subsidies. The case of imported coal is a striking one, especially in view of Italy's dependence on coal imports. Under German occupation imported coal cost 600 lire per ton; at the end of 1943 the import cost was estimated at between 2500 and 3000 lire per

ton and the price decision was to sell it at 1200 lire for essential uses. The difference is to be made up by the government, thus augmenting the general Italian government deficit financed by advances of Allied Military Government currency and by the Bank of Italy.

The upward movement of prices undoubtedly arises in substantial measure from shortage of supplies. Many of the 1943 crops in Southern Italy were severely deficient, due to drought, the military campaign, breakdown of transportation facilities and other dislocations in the distribution of essential products.

Another important influence is to be found in the substantial budgetary deficits of the Italian government. These deficits, which are related to the partial failure of the tax system and to other fiscal weaknesses, are somewhat smaller in amount that Allied Military expenditures. Being financed in part by issuance of new currency, the budget deficits contribute to the unfortunate and alarming rise of commodity prices.

However, the causes of the upward price movement are associated in substantial measure with military expenditure. To a degree this is unavoidable in a situation such as exists. That part of the pay of Allied troops disbursed in Italy, as well as the employment of local labor (such as dock workers) in the course of military operations, and the purchase of some local supplies, all imply an inflow of additional currency. This inflow is not offset by an increase in local production of civilian goods and services. It is relatively immaterial that many of the expenditures by individual soldiers are for articles of entertainment or enjoyment, such as souvenirs, and not for necessities. The net result in any event is a growing volume of currency in the hands of the population which, in view of the shortage of supplies, must result in an upward pressure on prices.

The Italian inflation viewed in the simplest terms is a matter of too few goods and too much money.

While the situation described is in large measure inescapable, it is aggravated to the extent that an unduly low valuation of the lira in terms of dollars and pounds sterling augments the inflow of additional currency unsupported by additional supplies. It is not possible to compute with exactitude what rate should have been set on the basis of purchasing power parity. The isolated and highly artificial character of the Italian wartime economy made, and makes, the usual calculations of this type impossible. Nevertheless the fixing of the new rate at less than one-fifth of the former official rate was an extremely drastic act, and those who have criticized the decision from the outset feel confirmed in their views by the behaviour of prices during the past eight months.

In view of the commercial isolation of liberated Italy, it would have been wiser, in my opinion, to have chosen a rate more in line with what is really the dominant aspect of the situation, namely, military occupation and military expenditures. This would be preferable even should it require a subsequent revaluation to take account of competitive trade relations and purchasing power parity under peace conditions. To fix an unduly low rate at the outset tends to anticipate and aggravate the danger of an inflationary spiral. Specific reasons for this statement will be found in succeeding paragraphs. Under conditions

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substantial measure with military expenditure. To a degree this is unavoidable in a situation such as exists. That part of the pay of Allied troops disbursed in Italy, as well as the employment of local labor (such as dock workers) in the course of military operations, and the purchase of some local supplies, all imply an inflow of additional currency. This inflow is not offset by an increase in local production of civilian goods and services. It is relatively insignificant that many of the expenditures by individual soldiers are for articles of entertainment or enjoyment, such as souvenirs, and not for necessities. The net result in any event is a growing volume of currency in the hands of the population which, in view of the shortage of supplies, must result in an upward pressure on prices.

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So far as I have been able to determine, the principal manner in which this undervaluation of the lira directly affects the situation is through the expenditures of Allied troops. The conversion at the present rate of such portion of soldiers' pay as is spent in Italy into lira, results in the injection of excessive money purchasing power into an economy suffering from a scarcity of goods. This follows not only from the amount of lire realized from the conversion of dollars and pounds, but also from the resulting state of mind of the soldiers with respect to the value of the local currency and the consequent stimulation of their propensity to spend.

At the same time there is in the background another extremely ominous set of influences. These are associated with the fact that the low rate has been and

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is interpreted by the highly exchange-minded and inflation-conscious Italian public as reflecting an unfavourable, even calamitous, outlook for the lira. Such a state of mind tends to encourage hoarding, speculation, black market operations, and additional upward pressure on prices. The importance of this factor may be obscured by the absence of broad opportunity for financial activities or for the acquisition of physical assets. Nevertheless a psychology of doubt and misgiving with regard to the currency exists and constitutes a threat of further inflationary developments, perhaps of an explosive nature, when conditions therefor are ripe.

In all the circumstances I believe the weight of evidence is to the effect that the rate fixed for the lira was too low. The significant issues to-day are: (a) whether an how the Italian situation can be remedied and improved; and (b) how other and new situations can be handled to best advantage.

The arguments in favor of readjusting the lira to a higher valuation to-day seem to me rather less clear than the case against the decision originally taken. A considerable period of time has elapsed and conditions have already adjusted themselves somewhat to the rate as fixed. A drastic reduction of the exchange value of dollars and pounds would probably be resented by both American and British troops, and the moment is probably not auspicious for a move of this sort. Furthermore the liberation of additional Italian territory, including the Rome area, will produce new and different financial problems. It may be the part of wisdom to await such developments rather than to risk being led into making a succession of moves which might appear to evidence irresolution and inconsistency.

I have in mind of course that an adjustment was made in the franc exchange rate in North Africa when it was decided that the value originally established was too low. I have been unable to discover any evidence of adverse repercussions resulting from that change. On the other hand it is true that conditions were in certain respects different and that a relatively brief lapse of time occurred between the initial establishment of the rate and the alteration. I am therefore not disposed to press the North African analogy unduly.

Nevertheless the inflationary threat in Italy must be faced squarely if we are to live up to our responsibilities and are to refute successfully the charge that we have learned nothing from past experience. The phenomenon is a complex one made up of many factors. For various reasons we have at this moment an opportunity to attack the entire problem simultaneously on several fronts, through the implementation of measures to check the price spiral.

I have in mind an integrated program consisting of various measures, all directed to the same end. Certain of these measures fall within the power and scope of the Allied Control Commission, and insofar as possible the Commission has already taken or is taking action. Such efforts will be vigorously continued. In other instances, however, the wholehearted cooperation of the Combined Chiefs of Staff will be necessary if anything effective is to be achieved.

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1. MILITARY EXPENDITURES.

a) As large amounts as possible of goods and services should be made available to the troops through post exchange facilities.

b) It is important to continue the policy, inaugurated in Sicily, of licensing certain establishments catering to army personnel, and of requiring them to operate at controlled prices and under prescribed regulations.

c) All unlicensed establishments should be placed off-limits with suitable penalties for violations.

d) All urban centers, such as Naples, should be placed off-limits to troops stationed outside such centers, except for the purpose of conducted sight-seeing tours.

e) Troops should be provided with the easiest simplest and most attractive facilities for adding to their savings in small and odd amounts; and the existence of these facilities should be thoroughly publicized.

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f) The same applies to facilities for purchase of war savings bonds, with regard to which I understand the present procedure to be unduly cumbersome.

The above mentioned measures, including those in existence and those which might be introduced by the Combined Chiefs of Staff, would result, I believe, in a material reduction of the personal expenditures of troops. They are presented as possibly constituting collectively, a substitute for an adjustment of the exchange rate. Certain of them will require a genuine appreciation, by the military authorities, of the gravity of the economic-financial problem, and a determined effort on the part of those authorities to reduce the excess money purchasing power emanating from army sources.

2. BLACK MARKETS

a) Much attention has been given to the application of appropriate and effective pressure on the Italian government looking toward the adoption of drastic measures for dealing with black markets in food and other necessities. Further progress with regard to this problem is extremely important, and will depend in part upon the success of other features of the program.

b) In connection with the foregoing the military authorities should enforce with greatest severity the regulations which prohibit diversion of military supplies to civilians.

3. GOVERNMENT FINANCES

a) The entire problem of Italian government finances, and ways and means to cut the deficits both by reduction of expenditures and stimulation of revenues, are being studied by the Finance Sub-Commission of the Allied Control Commission and by the Italian government. This task should be pursued vigorously. A tax program and other fiscal reforms should be included in a general plan for attack on inflation.

4. SUPPLIES

a) Food imports for the civilian population are now scheduled to arrive in substantial quantities. They will help greatly on the supply side of the inflation equation.

b) The new crop season is approaching. While the harvest outlook is not brilliant, largely due to lack of fertilizers, the transportation and distribution of domestic supplies can and will be greatly improved. The Agriculture Sub-Commission is using its best efforts to increase the new crop and to insure its equitable distribution.

The foregoing analysis and suggestions apply directly to the situation in liberated Italy. From them, however, lessons may be drawn applicable to other

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The foregoing analysis and suggestions apply directly to the situation in liberated Italy. From them, however, lessons may be drawn applicable to other territories which we expect will come within the scope of Allied government or Allied influence. If one of the consequences of the success of our arms and the liberation of conquered areas is a series of violent currency depreciations, this will be rightly regarded as a poor fulfillment of United Nations promises. Not only should the measures enumerated above be considered in relation to each new situation which develops, but the lesson of the Italian exchange problem should be gravely pondered and plans for the setting of other rates should take into account the consequences of the decision in the case of Italy.

I therefore earnestly recommend that the entire question be reviewed with care by all responsible authorities. The possibility of an adjustment of the Italian rate, even yet, should not be excluded from consideration. If the present moment is inauspicious for such action, it is conceivable that a later opportunity may present itself in connection with further liberation of Italian territory and as part of a coordinated financial-fiscal program. Both material and psychological benefits might thereby accrue, even though the appreciation be of modest extent and intended mainly to allay the public's fear of rapid currency debasement.

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Apart from the question of rate, all appropriate measures, including those mentioned above and any others believed useful, should be examined with a view to checking the rise of Italian prices.

In addition I urge consideration of all elements of the problem, and of the past record, in order to avoid or minimize comparable developments in countries and areas yet to be liberated. We surely cannot afford to have an Italian-type inflation everywhere we go.

Very respectfully yours,

HENRY F. GRADY.

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CONFIDENTIAL

arch 21, 1944

MEMORANDUM accompanying
letter of this date
to the Secretary of State
from Henry F Grady

INFLATIONARY DEVELOPMENTS IN LIBERATED ITALY

The following is an attempt to assemble some of the available information and ideas regarding financial developments in liberated Italy. The data at hand are incomplete and unsatisfactory, for various reasons. Furthermore, a thoroughgoing analysis of present developments would be of disproportionate scope and range. This memorandum therefore represents merely an endeavor to identify some of the main considerations and to place them in reasonable and useful perspective.

While the problem is extremely complex in its particulars, it is fairly clear in broad outline. We are dealing with a country, or rather a segment of country, which is impoverished by war and whose economic life is still dominated by military operations. There is a scarcity of essential supplies, notably food, and the presence of military forces necessitates the issuance of large amounts of paper money. Conditions on the other side of the front, although not clearly known, are probably similar in some respects to those of liberated Italy. In this situation rumors combine with facts to produce an inflationary psychology in both the liberated and enemy-held parts of the country. In addition, the rate of exchange of 100 lire to the dollar (or 400 to the pound sterling) may be itself regarded as a symbol of currency weakness.

This is the general picture. Exact information is fragmentary but some of the facts can be determined and estimates made regarding others.

As stated in the letter to the Secretary of State which this memorandum accompanies, the Italian inflation is essentially a matter of too much money and too few goods. There is the financial side of the problem and there is the supply side. The financial side breaks down in turn into two divisions: Allied military expenditures and Italian government deficits. Supplies must be dealt with in terms of domestic production and transportation, on the one hand, and imports on the other.

Any approach to the problem involves dealing with these specific factors, reconciling in some way the inherent conflicts of interest and policy, and arriving in each case at the best possible arrangement in the circumstances. There is no easy road, or single road, to a solution.

However, on one count at least the moment is auspicious for considering the whole problem and formulating an integrated program. Food imports for the civilian population are now scheduled to arrive in substantial quantities and will help greatly on the supply side. This gives special point to other proposals for combating the growing inflation menace, and notably to measures of a financial nature.

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The discussion will fall under seven main headings:

I. CURRENCY

II. BANK POSITION

III. ITALIAN GOVERNMENT FINANCES

IV. ALLIED EXPENDITURES AND ITALIAN DEFICITS

V. SUPPLIES

VI. PRICES

VII. CONCLUSION

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I. CURRENCY

In a statement of August 5, 1943, the Italian Minister of Finance (Sig. Bartolini), of the Badoglio cabinet, placed the Bank of Italy note circulation at less than 20 billion lire in 1939, and at 96.5 billion in July, 1943. These figures were naturally for all of Italy.

Estimates as to circulation of metropolitan lire for the whole of Italy, at the time of liberation of the southern portion, say as of the Armistice date, September 10, vary between 100 and 125 billion.

(Bank of Italy notes constituted by far the major portion of the circulation. State notes, of small denominations, entered into the figures just cited to the extent of approximately five percent.)

There is no way of calculating how much of this circulation existed in the portion of Italy liberated from German control. The only approach to a figure is by means of the estimates or guesses of experienced and informed men. These estimates range from as low as 15 or 20 billion lire to as high as 40 billion.

The higher figure reflects the ratio of the estimated population of liberated Italy, including Sicily and Sardinia (about 16,000,000), to that estimated for all Italy, including the islands, (about 44,000,000). This ratio, applied to a possible Italian circulation at the time of liberation of say 110 billion lire, gives a calculated figure of almost 40 billion lire for the liberated areas. It might be argued on behalf of a figure of this order of magnitude that checks are in less favor and have a more limited use in the south than in the north, hence that note circulation should be at least as high as the population ratio.

A further consideration which might be adduced in favor of a high figure is that the southern part of Italy was the main theater of direct preparations for the Italian African campaign and for the conduct of the defense of Italy itself in 1943. This would have tended to direct a considerable proportion of government expenditures, and therefore of currency, to this area.

However, other approaches to the question give much lower results. For instance, the Italian Ministry of Finance has made a calculation based on bank deposits in liberated Italy and the entire country, and has arrived at a circulation of between 14 and 15 billion lire. This figure probably is too low. As mentioned above, there must be a proportionately larger use of currency than of bank accounts and checks in southern Italy.

On the other hand, the strongly agricultural and relatively backward state of the southern area makes it likely that all forms of currency and credit are below the level of those in the north, and therefore that the currency circulation is less than that indicated by the population ratio.

Another factual argument suggests a rather moderate figure. The total circulation was around 20 billion in 1939 and was undoubtedly over 100 billion at the time of the Allied occupation. Much of this increase occurred in connection

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Another factual argument suggests a rather moderate figure. The total circulation was around 20 billion in 1939 and was undoubtedly over 100 billion at the time of the Allied occupation. Much of this increase occurred in connection with industrial production, which was concentrated in the north. Therefore a large part of the increase probably occurred on the other side of the present combat line. In addition, there was doubtless some flight of currency from the south, in the pockets of refugees, during last year's military campaign.

Obviously, this circulation question is most perplexing and it appears impossible to arrive at a definite or even reasonably certain answer. One thoughtful and objective Italian, highly placed in the present regime, has made a best guess of from 22 to 25 billion lire, after weighing all the foregoing arguments.

Everything considered, it seems reasonable to suppose that the figure was not less than 20 billion lire and probably not more than 30 billion.

Since the landing in Sicily on July 10, 1943, Allied Military currency has been issued in large quantities. (Yellow Seal dollars and MMA pounds were also issued but have played a relatively minor role.) The determination of the exact amount of AM lire actually placed in circulation is itself not easy, as the accounts are complicated and returns are required from numerous sources to give a complete and accurate picture.

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However, AFA (Allied Financial Agency) estimates in round figures that 10 billion AM lire had gone into circulation between the landing in Sicily and December 31, 1943; and that this figure increased to about 13,750 million lire on January 31, 1944.

By "into circulation" is meant both the holdings of the general public and the holdings of the banks, exclusive of amounts redeposited by the banks with AFA.

This raises an interesting question as to what is the true criterion of the monetary side of the inflation. To what extent do bank deposits, and redeposits in the Bank of Italy, constitute a "mopping up" of monetary spending power? On the other hand, to what extent does Government deficit spending financed with the Bank of Italy constitute an inflationary factor in excess of the actual increase in circulation caused by the issuance of AM lire?

Again, the facts are not obtainable to any satisfactory degree, but something may be said on the subject.

In the first place, there has occurred since the date of liberation a remarkable growth of bank deposits of all kinds. This subject will be discussed more fully in the succeeding section. By the same token the deposits of the Bank of Italy, which has begun to function once more as a central bank, have increased. Our habit is to think of bank deposits as "cash" in much the same category as currency from the standpoint of buying power. Perhaps that conception needs to be modified somewhat in southern Italy. As checks are so little used, it may be that the deposit of currency in the banks by individuals or business concerns, and the creation of deposits, constitutes in some measure a withdrawal of money purchasing power from the market place and an anti-inflationary influence.

We also have the fact that the Government deficits are financed only in part by advances of AM lire from AFA and from AMG (Allied Military Government) officials, and in part by advances from the bank of Italy. Insofar as the advances of the Bank of Italy are offset by increase of static deposits of the Bank, representing withdrawal of currency from the general public, it would appear that the net effect of both operations is, temporarily at least, non-inflationary. This conception would certainly not apply to advances made by the Bank in the form of the creation of new instruments of credit, such as "vaglia cambiari" or "vaglia stampigliati", but it may be valid to the extent that the whole operation represents a withdrawal from the public, and recirculation, of currency already issued.

Of course there remain the deposit liabilities of the Bank of Italy and the commercial banks, and the potential inflationary influence of conversion of deposits into currency for active use and spending. The reasoning of the preceding paragraph, to the extent that it is valid, is limited to the present immediate situation and interplay of forces.

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In the first place, there has occurred since the date of liberation a remarkable growth of bank deposits of all kinds. This subject will be discussed more fully in the succeeding section. By the same token the deposits of the Bank of Italy, which has begun to function once more as a central bank, have increased. Our habit is to think of bank deposits as "cash" in much the same category as currency from the standpoint of buying power. Perhaps that conception needs to be modified somewhat in southern Italy. As checks are so little used, it may be that the deposit of currency in the banks by individuals or business concerns, and the creation of deposits, constitutes in some measure a withdrawal of money purchasing power from the market place and an anti-inflationary influence.

We also have the fact that the Government deficits are financed only in part by advances of AM lire from AFA and from AMG (Allied Military Government) officials, and in part by advances from the bank of Italy. Insofar as the advances of the Bank of Italy are offset by increase of static deposits of the Bank, representing withdrawal of currency from the general public, it would appear that the net effect of both operations is, temporarily at least, non-inflationary. This conception would certainly not apply to advances made by the Bank in the form of the creation of new instruments of credit, such as "vaglia cambiari" or "vaglia stempigliati", but it may be valid to the extent that the whole operation represents a withdrawal from the public, and recirculation, of currency already issued.

Of course there remain the deposit liabilities of the Bank of Italy and the commercial banks, and the potential inflationary influence of conversion of deposits into currency for active use and spending. The reasoning of the preceding paragraph, to the extent that it is valid, is limited to the present immediate situation and interplay of forces.

The question as to how far deficit financing with the Bank of Italy branches is actually covered by the growth of Bank of Italy deposits will be discussed in Section III.

To revert to the subject of currency itself, one fact which we know is that no increase in the supply of Italian metropolitan lire occurred after Southern Italy was cut off from Rome, as note printing facilities do not exist south of Rome and Aquila. Some stocks of Italian currency existed in the Bank of Italy branches and may have been issued, but large amounts were destroyed during the last days of the old regime on orders from Rome. There has probably not been much increase in the circulation of metropolitan lire in liberated Italy since the occupation. Therefore, the total circulation on January 31, 1944 was approximately the sum of 13,750 million lire of AM currency plus whatever amount of metropolitan lire was in circulation at the time of liberation (see above).

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II. BANK POSITION:

It is extremely difficult to estimate the volume of bank deposits in liberated Italy at the present time. This sort of statistical information has always been centered in Rome, and the ordinary channels through which figures were assembled and made available have been disrupted.

It has been reported that deposits of all Italian banks (exclusive of the Bank of Italy) having more than 5,000,000 lire were 52 billion lire on July 31, 1939. This figure presumably increased considerably during the inflationary financing of the war.

A figure which seems fairly well established is 6 billion lire for Sicily at the time of occupation. Banks of the Naples province (exclusive of the Bank of Italy) are stated to have held on June 30, 1943 about 4.5 billion lire.

There has been a substantial increase in bank deposits since the reopening on October 29, 1943.

An estimate of 35 billion lire total bank deposits for all of liberated Italy, including the islands, as of December 31, 1943, may give some idea of the order of magnitude.

The expansion of bank deposits since liberation does not reflect by any means an expansion of credit facilities in the ordinary sense. It is due mainly to discarding of currency following the confusion and panic of the summer; to issuance of new Allied Military currency which has found its way in part into the banks; and to general absence of investment opportunities or other suitable opportunities for the employment of funds. People deposit their money in the banks because they have nothing else to do with it.

Mention has already been made of the question as to how far the expanded bank deposits themselves do or do not constitute an inflationary factor. The circulation figures estimated and analysed above include currency held by the banks as well as that in the hands of the general public. (Redeposits of AM lire with AFA are excluded, however.) To some extent the estimates for increase of circulation and those for the increase of bank deposits are a duplication or overlapping.

On the other hand, the increased deposits of the banks are, as already indicated, available for disbursement and the situation contains the usual inflationary potential which large and relatively idle bank deposits always represent. If anything starts a real flight from the lire, the deposits might play an important role, unless frozen by law or decree.

At the present time there is not much dynamic use to which the deposits could be put if the depositors decided to withdraw them in exhibition

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At the present time there is not much dynamic use to which the deposits could be put if the depositors decided to withdraw. There is a prohibition against transfer of real estate except under license. Most investment shares are of companies whose properties are in the north, and acquisition is of questionable desirability for both legal and physical reasons. Government securities are and will be available for purchase, but withdrawal of funds for acquisition of Government bonds would of course be non-inflationary. In the event of a flight from the lira, Government bonds would most assuredly not be popular. The fact is that aside from buying Government securities and from financing legitimate or illegitimate food transactions and consumers' goods for the troops, there is really little the depositor could do with his money if he withdrew it. This is undoubtedly an important reason for the piling up of bank deposits.

III. ITALIAN GOVERNMENT FINANCES.

In Section I reference was made to Italian public finances and to deficits of the Italian Government and other public bodies and agencies. Exact information is not available regarding either revenues or expenditures. However, incomplete but valuable data are obtainable from AFA and from other sources.

The Italian Government has been operating at a deficit for over a decade. Dislocation of the revenue collection system, and an inherent political unwillingness or inability to increase taxation, accentuated this condition during the last six months of 1943. Deficits continue to characterize the public finances of liberated Italy. Measures are being studied by both the Italian Government and the Allied Control Commission to revise the tax structure and machinery. An Interim Report prepared by the Finance Sub-Commission states that:

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

From information believed to be reliable it would appear that the showing in the rest of liberated Italy was considerably poorer, and that revenues generally ran substantially behind 1942 revenues and also far behind expenditures.

One complication (among many) with regard to estimating the deficits is the relationship of time and geography. Not all of "liberated Italy" was liberated at once. Therefore certain deficit financing with the Bank of Italy, as of a given date, occurred in some places before liberation and in other places after it.

One fact which somewhat simplifies the problem is that between the date of liberation and November 30 the Italian Government, local governments and governmental agencies did not borrow heavily from either the public, the commercial banks, or the Bank of Italy. Hence the AFA and AMG advances represent a large portion of the total deficits. More recently the Bank of Italy has been called upon to do a considerable share of the deficit financing.

AFA officials estimate the deficits of the Italian Treasury, local governments and para-statal institutions from the time of liberation to December 31, 1943 as being somewhat as follows:

	Millions of lire
To Nov. 30: financed by AFA and AMG finance officers	2,500
December: financed by AFA and AMG finance officers	1,375
Oct. 1 to Dec. 31: financed by Bank of Italy	1,770
Total deficits	5,645

It must be remarked that the figure of 1,770 million lire financed by

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AFA officials estimate the deficits of the Italian Treasury, local governments and para-statal institutions from the time of liberation to December 31, 1943 as being somewhat as follows:

	Millions of lire
To Nov. 30: financed by AFA and AMG finance officers	2,300
December: financed by AFA and AMG finance officers	1,375
Oct. 1 to Dec. 31: financed by Bank of Italy	1,770
Total deficits	5,445

It must be remarked that the figure of 1,770 million lire financed by the Bank of Italy applies only to the King's Four Provinces (Puglia). Some deficit financing with the Bank of Italy was done elsewhere during this period, for instance over 400 million lire in Naples. No operations of this kind occurred in Sicily and probably not many outside of Puglia and Naples. However, the Naples figure plus any other Bank of Italy advances elsewhere must bring the estimate of total deficits to December 31, 1943 to something around 6.2 billion lire.

The January deficit was about 1,850 million lire of which AFA financed over 1,100 million and the Bank of Italy by overdraft 638 million. A small item of 74 million lire was handled by [illegible] of short-term securities. The cumulative deficit to January 31, 1944 was about 8 billion lire.

In Section I allusion was made to the question as to how far deficit financing with the Bank of Italy is offset by growth of Bank of Italy deposits. The facts in this connection are rather clear. In Puglia, Bank of Italy deposits increased 1,330 million lire from October 1 to December 31, which was three-quarters of the deficit advances of 1,770 million lire. In Naples, the growth of Bank of Italy deposits has been very considerable, reflecting the policy of paying up to 3 percent on 15 day deposits. The deposit increase in Naples has greatly exceeded the deficit financing.

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Therefore from the standpoint of immediate effect on the inflation, the Bank of Italy advances, in conjunction with the growth of deposits, may be considered for the greater part non-inflationary.

On the other hand, it must be recalled that the major portion of the deficit has been financed by AFA, i.e., by the inflationary process of currency issuance. Furthermore, with regard to the non-inflationary character of the Bank of Italy advances, one cannot be certain how long and to what extent the growth of deposits, and their idleness, will continue.

By far the largest item of Italian Government expenditures is in connection with its military establishment.

As in all inflationary situations, there exists a vicious spiral. The public deficits, especially insofar as they are financed by new issues of currency, are contributary to the inflation. On the other hand, the inflation itself tends to increase public expenses faster than revenues. This is especially true as the Italian tax system is not very responsive to rising prices and money incomes, and the Italian Government - being weak - is loathe to increase taxation and enforce collections which would at the same time increase its own unpopularity. Hence we find here a typical instance of the lag between outgo and income, which recalls some of the other conspicuous inflations and which tends to produce an evil that feeds upon itself.

This entire question is receiving the attention of the Finance Sub-Commission, and quite rightly so. Of the various factors contributing toward a possible Italian inflation of extreme proportions, Government finance is by no means the least. Whatever may or may not be accomplished along other lines, the rehabilitation of the Government's taxation and budgetary position will be indispensable to a constructive solution of the whole problem.

IV. ALLIED EXPENDITURES AND ITALIAN DEFICITS.

In Section I it was stated that AFA estimated, subject to a considerable margin of error, about 13,750 million AM lire in circulation on January 31, 1943. Section III dealt with the magnitude and nature of the Italian government deficits. In order to comprehend more clearly what has occurred, it seems desirable to examine Allied expenditures and Italian deficits together. In principle it would appear that the increase in circulation, consisting of AM lire, has been caused in the main by (a) net Allied expenditures plus (b) Italian Government deficits financed with currency and not by Bank of Italy advances. There are certain discrepancies and uncertainties in the calculations which prevent the comparison being exact.

In the Finance Sub-Commission's Interim Report on Italian Government Finances, dated January 11, 1944, the following table was presented:

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In the Finance Sub-Commission's Interim Report on Italian Government Finances, dated January 11, 1944, the following table was presented:

AM lire Supplied by AFA
To Allied Armed Forces and Italian Government
(July 25 to December 31, 1943)

	Millions of lire	
American Armed Forces	7,693	
British Armed Forces	3,713	
French Armed Forces	804	
Total Allied Armed Forces		12,410
Italian State & State Institutions	1,964	
Provinces and Communes	1,021	
Total Italian Government		2,985
Funds held by accounting officers (AFA and AMG) in the field pending allocation to other accounts		2,885
Total of above		18,280

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The foregoing table is of interest, but bears no direct relationship to circulation. It represents rather amounts of currency delivered to one authority or another, without reference to ultimate disbursement. The funds held by accounting officers in the field obviously do not represent circulation. Furthermore, of the 12,410 million lire delivered to Allied Armed Forces, a very substantial portion remained on December 31 in the hands of Army paymasters. This was due either to a lag in disbursement to troops or suppliers or to return to paymasters hands by way of individual soldier purchases at Post Exchange stores, or to other causes.

A special compilation of figures has been made by AFA to attempt to set forth the net amounts actually expended in such a way as to affect the Italian economy, to December 31, 1943:

	Millions of lire	
1. Allied military expenditures to December 31, 1943		6,700
2. Italian government deficits from date of occupation to December 31, 1943		
a) To Nov. 30: financed by AFA and AMG finance officers	2,500	
b) December: financed by AFA and AMG finance officers	1,375	
c) Oct. 1 to Dec. 31: financed by Bank of Italy in Puglia	1,770	
d) Oct. 1 to Dec. 31: possibly financed by Bank of Italy elsewhere	500	
Total Italian government deficits		6,145
Grand Total		12,845

The 6,700 figure is considered to be in all probability an under-estimate.

Corresponding figures for January 1944, appear to have been approximately as follows:

	Millions of lire	
1. Allied military expenditures January, 1944		2,500
2. Italian government deficits January, 1944		
a) Financed by AFA and AMG finance officers	1,140	

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1. Allied military expenditures to December 31, 1943		6,700
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a) To Nov. 30: financed by AFA and AMG finance officers	2,500	
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Corresponding figures for January 1944, appear to have been approximately as follows:

	Millions of lire	
1. Allied military expenditures January, 1944		2,500
2. Italian government deficits January, 1944		
a) Financed by AFA and AMG finance officers	1,140	
b) Financed by Bank of Italy	638	
c) Financed by sale of short-term securities	74	
Total Italian government deficits		1,852
Grand Total		4,352

The two totals together amount to approximately 17,200 million lire, which is 3,450 million lire in excess of the 13,750 million AM lire circulation figure estimated for January 31, 1944. The difference is accounted for by such items of adjustment as the following:

Advances by Bank of Italy to the Italian Government, made in existing currency or bank deposits.

Currency redeposited with AFA by banks, and not included in the circulation figure.

Yellow Seal dollars and BMA pounds paid out; not included in AM lire circulation.

Etc., etc.

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These compilations undertake to eliminate funds held unexpended by paymasters; currency returned by soldiers to army authorities on account of individual purchases at Post Exchange supply stores, money orders, other remittances and savings, war bond purchases out of pay drawn locally; and all similar items. They include Am lira payments by Allied authorities for civilian labor, goods and supplies. Together with the explanations and reservations, they purport to give a reasonably true net picture of the impact of currency disbursements and deficit financing on the Italian money economy, and are probably about as close to the facts as it is possible to come at this time.

The estimates leave a great deal to be desired with regard to precision, and there are ample opportunities for errors and inaccuracies in the figures. Nevertheless they throw some light on the nature and magnitude of the problem.

For instance, the figures for Allied military expenditures, translated into dollars, amount to $ 67,000,000 for the latter half of 1943, and $ 35,000,000 for January, 1944. The month of January obviously shows a figure much higher than the average and may be an "odd month" for one reason or another. It will be of interest to watch February and subsequent months.

This puts the total of Allied military expenditures for the seven months at about $92,000,000.

While there is no logical reason for supposing that this represents an annual basis, inasmuch as any number of things may happen to alter the rate of disbursement, it may be of some interest to make a purely arithmetical conversion of the seven months figure into a twelve months figure. The result is a little less than $160,000,000. As mentioned above, the $67,000,000 figure for 1943 may be low, but, on the other hand, the January figure looks high on the face of it. Therefore it may be reasonable to say that Allied military expenditures so far seem to have been at the rate of about $160,000,000 per annum.

AFA officials believe that of Allied military expenditures (exclusive of Post Exchange purchases, remittances, local purchases of U.S. War Savings Bonds, etc.) about 75 percent represent direct spending on the part of officers and enlisted men, and about 25 percent disbursements by Allied authorities for civilian labor, goods and services.

If this is true, it would make soldier spending in the latter half of 1943 something in excess of $50,000,000; and for the seven months period around $70,000,000.

(The arithmetical conversion of these figures to an annual basis -- which is of limited interest and in no sense presented as a forecast -- gives a spread of from $100,000,000 to $120,000,000 per annum.)

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For instance, the figures for Allied military expenditures, translated into dollars, amount to $ 67,000,000 for the latter half of 1943, and $ 25,000,000 for January, 1944. The month of January obviously shows a figure much higher than the average and may be an "odd month" for one reason or another. It will be of interest to watch February and subsequent months.

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All the foregoing computations of Allied military expenditures and soldier spending include American, British and French forces.

The results with regard to spending by individuals are somewhat higher than other estimates made in Washington. Perhaps the 75%-25% division requires reconsideration. Or possibly the January figures are of such a nature as to throw the results out of line. It may be that the APA calculations of total disbursements, which are based on estimates, are somewhat too high.

On the other hand, some careful and detailed analyses have been made by others in Naples for spendings of American, British and French forces (i.e., individual officers and men) in certain sample months in 1943. The results were appreciably higher than the figures cited above.

Furthermore, data were obtained in Algiers regarding the rate of spending per individual soldier (officers and enlisted men) in four American divisions in Italy. The returns would appear to suggest a figure for total spending by individual members of troops somewhat in line with the figures mentioned above.

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There is a popular idea that spending by American soldiers in the community is very much greater, per individual, than in the case of the British. This is not true to the extent which might be supposed. While British army pay, and the amount of British pay available in Italy, is less than in the case of the American Army, there is a compensating, or at least a partial compensating, factor. This is because out of the amount of pay due locally (after permanent allotments, etc.), the British soldier apparently tends to spend a much larger percentage in the Italian community than the American. In other words, the American soldier avails himself more of Post Exchange and remittance facilities, etc., and each spends somewhat the same amount into Italian channels.

The reason why this whole subject of troop spending merits considerable attention, and why further efforts should be made to arrive as nearly as possible at the facts, is that one of the most important factors of the Italian inflation is involved. Although it is true that officers and enlisted men spend only a moderate fraction of their pay in Italy, especially in the case of the American troops, nevertheless their expenditures constitute one of the principal inflationary influences.

Payments for labor, goods and services, and Italian government deficits, are the two other chief monetary factors.

V. SUPPLIES.

The foregoing sections have dealt with the financial and monetary aspects of the subject. Obviously a complete treatment requires consideration of the supply element. However, other reports and material are being submitted which deal in considerable detail with this phase of the question. It would be redundant to cover the same ground in the present memorandum.

The severe shortage of agricultural supplies in 1945, resulting from poor crop conditions, dislocations caused by the war, breakdown of transportation, etc., constituted an important cause of the price inflation. This situation was not adequately met by means of imports. While the reasons for this were entirely valid, being associated with the conduct of military operations and the tight shipping position, nevertheless it is clear, as a matter of fact, that the country has suffered and is suffering from a severe shortage of foodstuffs and other necessities.

The widespread destruction of industrial and power establishments, together with the cessation of normal foreign trade, has produced a shortage of industrial goods corresponding to that of agricultural products.

While it is quite true that an inflationary price movement was inevitable under such conditions of material destruction, a presumption must be made with re-

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While it is quite true that an inflationary price movement was inevitable under such conditions of material deprivation, a reservation must be made with regard to the extreme emphasis which has been placed by some on this aspect of the subject. The financial conditions described in the foregoing sections would in all likelihood have produced some degree of inflation even had the supply factor remained stable or constant.

Furthermore, the present program of imports, and the more favorable outlook for transportation and distribution of this year's crops, offer assurance of considerable improvement with regard to supplies in 1944 as compared with 1943.

This makes it appropriate to lay great emphasis at the present time on monetary influences.

VI. PRICES.

The situation with regard to prices is set forth in considerable detail on pages 13 to 17 of the January report of the Finance Sub-Commission dated February 10, 1944. For the sake of presenting the essential facts regarding the cost of living, so far as food is concerned, in conjunction with the other material of this memorandum, the concluding passages of the discussion mentioned above are quoted as follows:

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The prices used have been combined into a composite picture for each province by calculating the cost of purchasing a budget of foods, using legal prices to the extent that rations were available and black market prices for the remainder. The budget used was determined through personal interviews with 26 Naples working class families in January 1944. The budget (for one person for one week) contains 2.00 kilo of bread, 0.15 kilo of pasta, 1.50 kilo of potatoes, 0.25 liter of olive oil, 2.50 kilo of vegetables, 1.50 kilo of fruits, and very small quantities of meat, cheese, fish, and milk.

The results indicate that the cost of living (food only) in Naples rose during the year from June 1942 to June 1943 at about 5% per month. Thereafter it rose very rapidly as follows:

(lire per person per week)

July	46
August	65
September	130
October	211
November	245
December	301
January	345

The results by provinces are approximately as follows:

(lire per person per week)

	December 7, 1943	January 7, 1944
Instep	50-90	80-100
Heel	70-110	100-130
Sardinia	100-110	no date
Toe	100-150	140-180
Sicily	130-170	185
Shin	300	300-350

Several observations must be made with regard to the foregoing:

First, there has been a tendency for prices of foodstuffs to stabilize following the increased imports and the improvement in the supply situation since the first of the year. For instance, the price of bread, which was 125 lire per kilo in Naples at the end of February 1944, had shown no increase for two months and even some decline from previous highs.

There is no doubt that increased supplies will tend to check the price

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The results indicate that the cost of living (food only) in Naples rose during the year from June 1942 to June 1943 at about 5% per month. Thereafter it rose very rapidly as follows:

	(lire per person per week)
July	48
August	69
September	150
October	212
November	243
December	301
January	348

The results by provinces are approximately as follows:

	(lire per person per week)	
	December 7, 1943	January 7, 1944
Instep	50-90	80-100
Heel	70-110	100-150
Sardinia	100-110	no data
Toe	100-150	140-180
Sicily	130-170	185
Ship	300	300-350

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First, there has been a tendency for prices of foodstuffs to stabilize following the increased imports and the improvement in the supply situation since the first of the year. For instance, the price of bread, which was 125 lire per kilo in Naples at the end of February 1944, had shown no increase for two months and even some decline from previous highs.

There is no doubt that increased supplies will tend to check the price spiral.

Second, black market prices vary greatly in different parts of the territory. Those cited for Naples may be three or four times as high as corresponding prices in parts of the country favorably situated from an agricultural standpoint.

Third, no details are given for prices of industrial products but it may be stated that consumers' goods in general have risen spectacularly, due to scarcity of goods and multiplication of money buying power.

The record is clear, unfortunately, that the period of Allied occupation has witnessed a dramatic price rise.

Money incomes have increased to a relatively small extent in comparison with the price rise. For instance, since Allied occupation certain classes of government workers have been granted pay increases on a graduated basis amounting to 70 percent on the first 1000 lire per month, 60 percent on the second thousand, 50 percent on the third, 30 percent on the fourth, and 10 percent on the fifth.

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Industrial wage increases have been very irregular and complicated by a confusing system of bonuses. In Naples some wage increases since liberation have been in the order of 100 percent. The general rate of increase has probably been less, ranging from around 50 percent to around 80 percent. Labor employed by the army is believed to receive from 50 to 100 lire a day with perhaps an extra free meal.

This represents a very small amount to support a family, in comparison with the cost of food cited above.

One may ask himself how, in the face of such discrepancies between prices of necessities and money incomes, life is sustained at all. The answer may be found partially in the field of relief, for public relief exists and while it is on an extremely modest basis in terms of money income per individual, it does compare fairly favorably with such amounts of food as can be purchased at ration prices.

In general it seems that money incomes are able to support life, in many cases at a hardship level, because of concentration of buying power on a small number of necessities -- notably bread, potatoes, olive oil, and a few other foodstuffs. Rents are frozen at low rates and do not represent an inflated element in the cost of living. As to clothing, shoes, etc., the population on the whole is simply using up its belongings: wearing old clothes and not replacing them. Transportation, recreation, etc., are for the greater part of the community insignificant items. The available income and cash resources of the population are directed chiefly to the purchase of a few staple foods.

Family incomes are also pieced out in all sorts of ways. Tradesmen's services are rendered, often for Allied troops at high lira rates; people perform odd jobs; some have contacts with relatives in the country and obtain a little extra food; some engage in black market operations on a small scale; etc., etc.

Amounts of lire spent by Allied troops and by military authorities work their way into the money purchasing power of the Italian community, and help to create the funds which on the one hand are used to purchase necessities and which at the same time bid up the prices of those necessities.

The process is indirect rather than direct. Soldiers buy their own necessities and comforts in the Post Exchanges and their public spending is mainly for trinkets and amusements. The Italian recipients of such funds use them largely for the acquisition of food, and to a considerable extent in the black market.

The monetary aspects of the problem have been discussed at some length and the supply situation briefly. It is the purpose of these paragraphs on the subject of prices to point out the tremendous acceleration of price rises which has occurred since Allied occupation, and the glaring discrepancies between ...

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The monetary aspects of the problem have been discussed at some length and the supply situation briefly. It is the purpose of these paragraphs on the subject of prices to point out the tremendous acceleration of price rises which has occurred since Allied occupation, and the glaring discrepancies between prices and incomes; and also to explain how such a situation can exist without even greater social hardships and unrest than at present prevail.

VII. CONCLUSION.

In conclusion, and for the sake of emphasis, there is repeated below the program set forth in the above mentioned letter to the Secretary of State:

1. Military Expenditures.

a) As large amounts as possible of goods and services should be made available to the troops through Post Exchange facilities.
b) It is important to continue the policy, inaugurated in Sicily, of licensing certain establishments catering to army personnel and of requiring them to operate at controlled prices and under prescribed regulations.
c) All unlicensed establishments should be placed off-limits with suitable penalties for violations.

d) All urban centers, such as Naples, should be placed off-limits to all troops stationed outside such centers, except for the purpose of conducted sightseeing tours.
e) Troops should be provided with the easiest, simplest and most attractive facilities for adding to their savings in small and odd amounts; and the existence of these facilities should be thoroughly publicized.
f) The same applies to facilities for purchase of war savings bonds, with regard to which I understand the present procedure to be unduly cumbersome.

The above mentioned measures, including those in existence and those which might be introduced by the Combined Chiefs of Staff, would result, I believe, in a material reduction of the personal expenditures of troops. They are presented as possibly constituting, collectively, a substitute for an adjustment of the exchange rate. Certain of them will require a genuine appreciation, by the military authorities, of the gravity of the economic-financial problem, and a determined effort on the part of those authorities to reduce the excess money purchasing power emanating from army sources.

2. Black Markets.

a) Much attention has been given to the application of appropriate and effective pressure on the Italian Government looking toward the adoption of drastic measures for dealing with black markets in food and other necessities. Further progress with regard to this problem is extremely important, and will depend in part upon the success of other features of the program.

b) In connection with the foregoing the military authorities should enforce with greatest severity the regulations which prohibit diversion of military supplies to civilians.

3. Government Finances.

a) The entire problem of Italian government finances, and ways and means to cut the deficits both by reduction of expenditures and stimulation of revenues, are being studied by the Finance Sub-Commission of the Allied Control Commission and by the Italian Government. This task should be pursued vigorously. A tax program and other fiscal reforms should be included in a general plan for attack on inflation.

4. Supplies.

a) Food imports for the civilian population are now scheduled to

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4. Supplies.

a) Food imports for the civilian population are now scheduled to arrive in substantial quantities. They will help greatly on the supply side of the inflation equation.

b) The new crop season is approaching. While the harvest outlook is not brilliant, largely due to lack of fertilizers, the transportation and distribution of domestic supplies can and will be greatly improved. The Agriculture Sub-Commission is using its best efforts to increase the new crop and to insure its equitable distribution.

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U.S. SECRET
BRITISH SECRET

COMBINED CIVIL AFFAIRS COMMITTEE

The following communication has been submitted by ID-AFF and has been sent after clearance with those concerned.

CAC Airgram 5. 30 November 1943

From: COAC

To: FHMGS

Repeated: NTFOR, SOS NATOUSA

Subject: Essentiality of Civilian Supplies for Sicily and Italy.

1. In the future, in obtaining civilian supplies for Sicily and Italy, it will be the responsibility of the theater commander to evaluate the essentiality of those supplies (other than the previously agreed quantities of basic food, fuel, medical and sanitation supplies) and provide information as to essentiality with requisition, or inquiry of availability. This information will then be used by allocating authorities to evaluate this civilian requirement relative to worldwide requirements and supply availability.

2. The information as to essentiality is to be provided in two parts: first, the assignment of an essentiality rating; second, any specific information as to use and essentiality which will aid an allocating agency to judge the need in theater relative to worldwide supply and demand.

3. The rating will be in accordance with one of the following four categories:

RATING ONE: Supplies which must be furnished to prevent disease or unrest which would prejudice the military operation. Such supplies are justified only on the basis of absolute essentiality.

RATING TWO: Supplies which are essential to the maintenance of industrial, economic and civilian life of the country to such an extent that the lack of such supplies would cause severe internal repercussions, although not to such an extent that military operations would be jeopardized.

RATING THREE: Supplies necessary for the production of goods contributing directly to the Allied War programme.

RATING FOUR: Supplies which are important to the industrial and civilian life of the country, although the lack of such supplies would not cause severe internal repercussions.

4. It should be emphasized that these ratings should be applied only after

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From: OCAC

To: FBMIS

Repeated: NTOUSE, SOS NATOUSA

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RATING FOUR: Supplies which are important to the industrial and civilian life of the country, although the lack of such supplies would not cause severe internal repercussions.

4. It should be emphasized that these ratings should be applied only after careful evaluation of essentiality.

5. Cable confirmation with any comments on above procedure is requested.

6 Copies Algiers
2 Copies London
2 Copies SOS, NATOUSA
2 Copies NTOUSE

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SECRET

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Filed: 0921292

AFSC II 26/10
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ROUTING

FROM: ADVAR

TO: WILSON DUPLICATED MEMOSA, INFORMATION BRITISH CHIEFS OF STAFF

REF NO THIS MESSAGE: WX-20941, 9 April 1944

FOR TELEG FROM COS

CITE: COSC

TAM 162.

Control of Inflation in ITALY.

A serious view is taken here of the critical nature of inflationary developments in ITALY. It is recognized that political and military conditions make it difficult at this time to introduce and administer measures to counter effectively the inflationary pressures.

It is felt that ACC should give utmost attention to working out a comprehensive financial and economic programme for stabilising prices in ITALY, to be put into effect as soon as the general military, economic and political situation is appropriate for such action. In the meantime, every method which can be employed under present conditions should be used for checking inflationary trend.

In view of increased import programme, is it possible to arrange with Italian Government to impose and enforce stricter measures against black markets?

Programme of control of Italian Government finances and curtailment of budgetary deficits should be pursued with utmost vigour by ACC and the Italian Government should be made fully aware of its responsibility for taking all possible corrective measures.

Also request ACC to continue vigorously its present efforts, both as to maximizing production and facilitating transportation and distribution in connection local crops.

FOR INFORMATION ONLY

CITE: CCAC

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ACTION: MGS

INFORMATION: SGS
FINANCE
DPIC
VEN ADV
MR MURPHY
MR MACMILLAN
C-4

23..

MC IN 5547 10 APR 44 07153 REF NO: WX 20941 I/I/II

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TOP SECRET

(Circulated before receipt of Finance Sub-Commission's cables, and is tentative, for discussion only.)

NOTES ON POST ECONOMIC PROBLEMS

IN SOUTHERN ITALY

A.

1. Although the British have had some experience both in the Italian African Colonies which we have occupied and in French North Africa of many economic problems resulting from military occupation, Southern Italy is the first piece of European territory which the Allies have entered. We are therefore for the first time dealing with a purely European population and an advanced economy and civilisation. It is both a field of experiment and a challenge.

It is of vital importance to our short term and more especially to our long term interests in Europe that 'liberation' in Italy and other European countries should not prove the precursor of complete economic chaos, involving the destruction of the existing social system and leading inevitably to despair and revolution.

The rest of Europe watches Italy with divided hope and apprehension. The exiled Governments, particularly those of Holland, Belgium and the French Committee of National liberation, are showing great and daily increasing interest. There is also continual watchful criticism in political circles and the national press both in Great Britain and in America. We have therefore a great responsibility in Southern Italy outside the actual importance of the territory and population themselves. We have, moreover, since we have liberated only a third of the country, an opportunity of learning from our mistakes and correcting them by the adoption of stronger measures and, if necessary, new policies.

B.

2. In order to form a basis for operating such policies, it is necessary to have certain statistical information most of which is no doubt available. The particular points on which it would be useful to have a reply are as follows:-

Currency and Credit.

(1) Can any estimate be given of the general monetary situation in Southern Italy and the Islands before the occupation?

What was the general price level?

What was the degree of inflation due to four years of war?

(2) What is total AMGOT lire introduced by Allies?

(3) Have the Allies introduced ordinary Italian lire, obtained from various sources, in addition to AMGOT lire, and if so, to what extent?

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2. In order to form a basis for concerting such policies, it is necessary to have certain statistical information most of which is no doubt available. The particular points on which it would be useful to have a reply are as follows:-

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(3) Have the Allies introduced ordinary Italian lire, obtained from various sources, in addition to AMGOT lire, and if so, to what extent?

(4) Have the Allies created by their operations additional bank deposits? If so, of what order?

(5) Is the Italian Government issuing lire of its own, and if so, through what bank of issue?

(6) Is the Bank of Rome the only normal Bank of Issue, or are there others?

(7) At what monthly rate are AMGOT lire being introduced?

(8) Are AMGOT lire only used for purchases by troops individually? Or are other payments made in them? If so, what is the proportion between the private and official use?

(9) Presumably any large transactions between the Italian Government and ourselves are recording transactions, not settled in currency?

(10) Do we hand over AMGOT lire to the Italian Government for its own use, and if so, to what extent?

(11) What is the present gap between black market and controlled prices? Is the margin growing or lessening?

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(12) Do the people actually receive their full legal ration at controlled prices?

(13) What is the estimated total increase in purchasing power?

Taxation and Savings

(1) Is there any system of direct taxation - rates, income tax, etc. - being levied by the Italian Government locally or centrally?

(2) What indirect taxes are being levied?

(3) What form of savings, short or long term, is being operated?

What form of war bonds, etc. is being operated?

What other methods of saving, such as lotteries, etc., are operating?

(4) What is the ratio between the sum of 1, 2, and 3, and the increase in purchasing power since the Allied invasion?

C.

3. It may be convenient to consider the measures taken in Great Britain since the outbreak of war and to see to what extent they can be applied mutatis mutandis (a) in Southern Italy under present conditions, and (b) in Italy as a whole when the greater part of it is liberated. The general financial policy in Great Britain has been to make every endeavour to keep as stable a price level as possible. The major measures have been as follows:-

(1) Fixing of prices of the main items of a working class budget, e.g., rents fixed at 1939 levels; food subsidized in order to maintain substantially pre-war levels; etc., etc.

(2) Strict control and rationing of all essentials. These measures together have resulted in the maintenance of the cost of living up to the present at 28 per cent above pre-war level. Without the subsidies it would have reached between 45 and 50 per cent. above pre-war level; without other measures, such as rent fixation, a much higher figure would have been reached.

(3) Wage rates in 1941 were 22 per cent. above September 1939, and by the present time have reached about 40 per cent. above 1939. Owing to overtime, Sunday time, etc., earnings have risen substantially higher.

(4) In addition, taxation direct and indirect has been raised to very high levels; and savings stimulated through all possible means; thus a sufficient amount of the personal incomes of the public has been taken off the market. In 1938 76 per cent. of the personal income was spent on consumption; by 1943 this figure had been reduced to 53 per cent. (These estimates are on a true basis by eliminating the effect not only of duties but of subsidies).

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All these measures together, the subsidising and the fixing of the prices of necessities, and the clawing back from the market by taxation direct and indirect, and by savings of the greatest possible amount of purchasing power created by war expenditure, have been the instruments by which reasonable stability has been maintained up to date.

D.

4. Before discussing how far similar measures could be applied in Southern Italy, chiefly by the Italian Government on our advice, we should consider the adoption of a device already used in North Africa and Corsica. I understand that the French Committee of National Liberation are seriously considering its use not only once but successively in Metropolitan France. This consists of the substitution for the existing currency of a new currency. I do not know how far this has been done in Southern Italy. An opportunity will soon present itself, I am informed, on purely technical grounds. The method is to declare that on a certain day all existing notes of the old issue lose their value but can be taken to the banks and exchanged for new notes with the proviso that only a certain quantity of new currency will be given in exchange for old, the balance being banked for the owner. This has the effect of course of reducing enormously the currency in circulation, building up blocked bank deposits which the

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owners may not use except to a limited extent, and thereby reducing the currency available for the purchase of consumption goods.

If this measure is taken, it should be accompanied by a measure restricting the movement from one bank deposit to another; otherwise an equal pressure will develop upon capital or durable goods, the prices of which will go rocketing up.

E.

Drawing on British experience, the Allied Control Commission could influence and assist the Italian Government.

(1) Subsidization and control of prices depends upon efficient administration and distribution of rationed necessities at the controlled prices. Can this be achieved in Italy? What additional measures are required? How far would an increase in trucks etc. available to A.C.C. and A.M.G. help to meet the present difficulties of distribution so far as they arise from lack of transport? In so far as they arise from lack of honest administration, what propaganda measures, e.g., the press, the radio, and above all the Church, are harnessed to the task of attacking the black market, etc.?

(2) Taxation. What is the present position as regards direct and indirect taxation, and how far can we improve the levying of these taxes both locally and centrally? In spite of all the difficulties, a great effort should be made to support the Italian administration in this task.

(3) Savings. I do not know the present position with regard to short or long term savings; but it seems to me that under this heading, which is one of the major methods of preventing inflation, study could be given to the improvement and popularization of savings. It is very important to do this before public confidence in the value of money is altogether destroyed.

(4) Wage Rates. Although earnings of course increased in England, chiefly by the application of long hours and piece rates, wage rates as a whole have not risen phenomenally. It has been a considerable achievement to keep them down to a rise of 40 per cent. up to date. The possibility of this depends upon the success of pegging prices of necessities; but it also partly depends upon the good sense of trades union leaders, and has been made possible by the powers of direction taken by the Minister of Labour. In the early stages of the war there were definite signs of employers bidding against each other for labour, and therefore bidding up wage rates, but this was prevented by various administrative measures. At present there is probably an unemployment rather than a full employment problem in Italy. Nevertheless, great care should be taken to prevent competitive bidding for skilled labour between the British and American military organizations, between the various Services, Army, Navy and Air Force, and between the AMGOT and A.C.C. authorities and Italian bodies of

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F.

5. There remain certain problems directly attributable to the invading armies which we may think peculiar to Italy and other occupied territories. To the extent that in Great Britain we have the armies of our Allies, the same monetary pressure has been exerted upon us, and therefore we are not altogether without experience of its treatment.

What steps can be taken to reduce expenditure of lire by Service personnel? (N.B. The new scale of British army allowances just announced will certainly not tend to relieve the problem.)

(a) By increase of remittances home. Can the proportion be raised above the admittedly high level reached? (What are U.S. and British percentages?)

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(b) By increase in PX and EPI services. (? Does this reduce the total lire expenditure or merely give the troops better value for their money. Presumably, if they can get the souvenirs etc. they want at cheaper rates, they may spend less and remit more home.).

(c) It should be remembered that in so far as the soldier's purchases are subject to indirect taxation, this will have the effect of taking purchasing power off the market, and the possibility of stepping this up might be studied.

(d) By alteration in the rate of exchange.

(i) What would be the economic effect of (say) halving the rate, i.e. 50 lire to the dollar; 200 lire to the pound sterling?

Presumably since Allied Government claims on Italy (for occupation costs etc.) far outweigh Italian claims on the Allies, even taking into account the proposal to pay for Italian exports in blocked dollars, there would be no loss to the Allies on Government account.

What would the troops do?

Would they buy the same amount of goods and services and thus neutralize the alteration of the rate?

What was the experience in North Africa last March?

(ii) What would be the military effect?

Would the troops resent it so strongly as to injure morale?

G.

6. These notes are circulated merely for the purpose of initiating discussion. After we have sorted out our ideas, I would suggest the preparation of an agreed memorandum incorporating the information for which I have asked and posing as accurately and objectively as we can the different problems and their possible solutions. We might then have a discussion in Italy with the Chief Financial and Economic Representatives of the Allied Control Commission. I understand that Mr. Clasmer of the United States Treasury is now in Italy: and it has been suggested that Mr. E.M. Lloyd, British financial expert temporarily working under the Resident Minister, Middle East, should be seconded to Italy for a short time. If we could then produce an agreed statement, I would suggest that, quite apart from the formal channel of the Combined Chiefs of Staff (which, judging from their reply to our proposal of last January, has not been remarkable for a particularly fruitful or invigorating flow of ideas), Mr. Murphy and I be authorised to pose those problems for the consideration of the American and British Treasuries and Governments, and obtain such information and advice as we are able to do either through official or unofficial channels.

Harold Macmillan.

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

(d) By alteration in the rate of exchange.

(i) What would be the economic effect of (say) halving the rate, i.e. 50 lire to the dollar; 200 lire to the pound sterling?

Presumably since Allied Government claims on Italy (for occupation costs etc.) far outweigh Italian claims on the Allies, even taking into account the proposal to pay for Italian exports in blocked dollars, there would be no loss to the Allies on Government account.

What would the troops do?

Would they buy the same amount of goods and services and thus neutralize the alteration of the rate?

What was the experience in North Africa last March?

(ii) What would be the military effect?

Would the troops resent it so strongly as to injure morale?

C.

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Harold Macmillan.

8th May, 1944.

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

SECRET

Cable No. [redacted]

ADC MAIN (GEN MACFARLANE C COMM) — 12th May, 1944.

SECRET — V16

PRIORITY — GEN MACFARLANE

A.F.H.Q.

My immediately preceding tele rem. At the present moment the population of cobelligerent Italy is on a ration which is below subsistence and requires supplementation from uncontrolled sources. The necessary ceiling as regards wages provides a bare subsistence wage. Unless we increase the food ration we are bound to be faced with labour troubles resulting in inevitable wage raising and inflationary consequences. To keep the country contented and to ensure a more effective cooperation in the war effort it is becoming daily more obvious that we must increase our basic ration.

2. I recommend most strongly that the present bread ration of two hundred grammes be raised to three hundred. This would represent an increase of only forty grammes of flour over and above the ration scale approved by AMF.

3. Plans are now under consideration to allot rations to provinces on a basis of a percentage of the population which will be fixed for each province and which should reduce the number of ration card holders to 65 per cent of the population as a whole. If this is successful, flour requirements on the proposed ration scale would exceed present issues by only about 11 per cent.

4. I wish to emphasise that the present consumption of bread is not in fact limited to two hundred grammes and it never will be so limited. With a thousand lire price of wheat and a three hundred gramme ration we would at last have reason to hope that we can solve the black market problem.

5. With a three hundred gramme ration and the black market in wheat and bread largely eliminated, the necessary importations of wheat and flour should probably not exceed the amounts that would be required with a two hundred gramme ration, a flourishing black market and the immediate threat of inflation.

6. I would point out that with a three hundred gramme ration it would become possible seriously to consider increasing the price of bread as the necessity for substantial purchases in the black market would be very greatly reduced, and with even a considerable rise in the price of bread a ration card holder would be able to purchase his requirements at much less outlay than he has to make at present. This would naturally have the effect of substantially

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7. I and my advisers are convinced that the proposed raising of the bread ration will contribute materially to the successful amassing of wheat. 237

8. We envisage amassing barley, olive oil and other crops in due course. The price of these will be fixed in relation to the price fixed for wheat. The extent to which it will be possible to dilute wheat flour with barley and other flour is now being investigated.

9. I would be grateful for earliest possible sanction to this proposal to increase the bread ration which I desire to bring into effect on July 1st, and which I would like to announce soonest possible.

NEIL MASON MACFARLANE,
Lieut-General,
Chief Commissioner.

SECRET

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

SUBJECT: Interview with the Italian Minister of Finance Quinto Quintieri on 14 May 1944.

1. Quintieri's point of view. The minister insisted that he had accepted his present post out of patriotic motives and as a technician. He had no party affiliations whatsoever and when his present task was finished he would gladly retire to private life. He declared that his work was still in the policy-formation stage and welcomed an opportunity to discuss freely the possibilities of the situation. As far as could be judged the minister talked with complete frankness.

2. Imports of foodstuffs. Quintieri said that first consideration should be given to augmenting imports of foodstuffs. It was essential to raise the daily bread ration to 300 grams. The people were starving and afraid, and nothing serious in the way of reconstruction was possible unless they had enough to eat. Obviously the war effort came first, but it should be remembered that as Italy's contribution to that effort increased, the labour and other resources available for feeding and clothing the population would diminish and further imports of food would become necessary. It was suggested to the Minister that it might be better in the long run to use any additional shipping space available to bring in fertilizers, seeds, and farm implements in order to make the country more self-supporting. Quintieri replied that theoretically he was in complete agreement with this point of view, but he doubted that such goods could be effectively distributed under the present circumstances.

3. Post-war purchasing power. A second desideratum, and one about which the minister had done considerable thinking, was the earmarking of funds with which Italy could make purchases in Allied countries after the cessation of hostilities. The Italian government was grateful for the loans which enabled it to cover its operating deficit. But if part of these monies could be set aside in such a way as to give Italy purchasing power in Great Britain and the United States after the war, this would be much more important than keeping the budget balanced. If it were essential to balance the budget, much might be done by changing some of the armistice terms. These terms had been fully justified in the military sense, but as the Allies had had to assume certain responsibilities with respect to the economic situation in liberated Italy, it might be pointed out that the services of the Italian railway system, if paid for, would create a considerable credit for the Italian government.

4. Taxation, wages and prices. Another subject about which the minister had been thinking seriously was the use of taxation to achieve an equilibrium between prices and wages. As the situation now stood, the gap between wages and prices was many times greater in the urban centers than in the

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4. Taxation, wages and prices. Another subject about which the minister had been thinking seriously was the use of taxation to achieve an equilibrium between prices and wages. As the situation now stood, the gap between wages and prices was many times greater in the urban centers than in the rural areas, partly because the supply of foodstuffs tended to be immobilized in rural areas and partly because of the stagnation of industry. Since 2374 with the present administration it was very difficult to effect an equitable distribution of food supplies and since such industrial activity as there was had to be completely subordinated to the war effort, it might be possible to attack this disequilibrium by financial means. The essential elements in such an attack would be to raise salaries and industrial wages sharply and to tax landowners heavily, to some extent in proportion to the quantity of grain which they consigned to the Granai del Popolo. The minister did not expect the Granai would achieve great success, though he thought they would be most effective among the larger land-owners. He thought the public price of wheat had been fixed too low. He disagreed entirely with the argument that wages must be prevented from rising. The old value of the lira was gone for ever. Police control of prices, as illustrated by the recent measures of AMG Region III, could have only a limited effect. A new and higher equilibrium must be established and studies in this field were now underway in the ministry.

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5. The dollar value of the lira. In response to a question the minister stated that he was officially very much in favor of an increase in the dollar value of the lira, but that personally he did not regard the matter as of great importance. Additional imports of grain, the problem of Italy's post-war purchasing power, and the taxation-wage scheme were all of greater moment. The exchange rate had been very unfavorable to Italy at the time it was established, but the rise in prices, in part a consequence of the exchange rate, had to some extent offset this initial disadvantage by restricting the purchasing power of the occupying troops.

6. The future of the lira. Just where the lira would be pegged depended on many factors, among them the amount of currency which the Allies and the Germans put into circulation. He estimated that the currency in circulation in Southern and insular Italy at the time of the Allied occupation was 13 billion lire. He thought that Allied issues might have brought the total to 27 or 28 billion lire, though he had no means of actually knowing. As to German occupied Italy, the only information he had received indicated that until March the Germans had issued 7½ billion lire a month, and in March 10 billion lire.

7. Republican fascist legislation. The minister was asked what he thought might be the effects of the socialization legislation of the Fascist Republican government. He regarded that legislation as partly a propaganda effort to secure popular support and partly a threat to secure the cooperation of the industrialists. He did not think that any serious attempt had been made to put the socialization laws into force, though their existence would undoubtedly add to the confusion with which the Italian government would have to cope once the territory was reoccupied.

8. The future of Italian industry. With regard to the future of Italian industry, Quintieri thought it would be a mistake to rebuild heavy industry. Italy should concentrate on the production of finished and luxury goods, textiles for example, and the tourist trade should be given every encouragement. Of course much depended on the international economic situation, especially the accessibility of foreign markets and sources of supply. The great danger, as he saw it, was not fascism, for fascism was dead, but economic nationalism. We must strive for a reasonable nationalism. Otherwise there would be danger that Italy, as well as other countries, would in due time resort to an agressive policy.

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SECRET

3969

ACC MAIN (FINANCE SUB-COMMISSION) 14 MAY 1944

SECRET VAPOUR 30

ROUTINE POLEY

FREEDOM

_____ Transmission of the following to COS for CCAC is requested. Reference TAM 162 dated 9 April 1944 Financial Section of the stabilization programme as tentatively formulated consists following features:

1. Institute expenditure accounting control and establish standards of expenditure to reduce budget deficit including elimination of unnecessary subsidies and payments to individuals.

2. Simplify tax system to generalise income tax and excess profits tax and increase revenue through higher progressive rates.

3. Reorganise the administrative tax procedures to eliminate arbitrary elements and exemptions and to obtain accurate reporting.

4. Institute emergency anti-inflation revenue measures:

(a) Currency conversion accompanied by anti-inflationary tax on liquid assets with progressive scale of taxation. This programme would be applied when the whole of Italy is liberated and the inflationary movement has reached its peak since such programme can be applied only once.

(b) Temporary suspension of commodity taxation with the utilization of existing Government monopolies and trade controls to exact profits for Governmental revenue and to absorb profits arising out of inflationary situation including exports, imports and selected items of domestic production. Programme can be initiated immediately but results will be greatest during the early stages of reconstruction and when the inflationary danger will be reaching a maximum.

(c) Special agricultural taxes to strike at the greatest accumulation of inflationary profits, and to coordinate with efforts to increase production, rationing, assessing and price control programmes.

(d) Special discriminatory penalty taxes amounting to confiscation of property of enemies and violators of economic regulations.

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

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   (c) Special agricultural taxes to strike at the greatest accumulation of inflationary profits, and to coordinate with efforts to increase production, rationing, amassing and price control programmes.

   (d) Special discriminatory penalty taxes amounting to confiscation of property of enemies and violators of economic regulations.

5. Reorganization of public debt structure to eliminate routine borrowing from central bank, initiate bond issues to the banks and public, increase the proportion of long term debt, lower interest rates, publicize information concerning public debt and its burden.

6. Reorganization of banking structure to give Government full control over extension of credit in order to eliminate borrowing for speculative purposes during emergency, provide private banking facilities to coordinate with economic programmes of the Government and to lower the arbitrarily high interest rate structure.

7. Establishment of standards and principles of price control policy to coordinate with other aspects of economic programme.

8. Orientation of Government towards establishment of stability in the exchange rate of the lira with recommendations for appropriate control of imports and exports and policy on remittances. Suggestions on the outline presented will be very helpful if given to us before completion. Expected final programme will be completed about 20 May and will be presented to you for approval before presentation to Italian Government.

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

DRAFT CABLE

19 May 1944

TO: AFHQ For MCB

FROM: CASERTA/AMZON

I have appointed a special Committee called "Allied Inflation Committee of Italy" to recommend measures to combat inflation. Chairman: Captain Ellery Stone, USNR. Members: (to be inserted).

At its first meeting, the Committee was strongly of the opinion that the recommendation in my M 194 of 12 May 1944 is indispensible to control of inflation. It recommended to me that the increase in the bread ration be introduced prior to the harvest in order to break the black market price and thereby encourage the amassing. The harvest begins about June 1.

The Committee attached paramount importance to preventing further rise in wages as central point of anti-inflation policy. At present, wage earners are compelled to pay black market prices to supplement ration of two hundred grams and if this continues it will be impossible to resist demands for increased wages.

As pointed out in telegram (to be inserted) if black market is broken and

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The Committee attached paramount importance to preventing further rise in wages as central point of anti-inflation policy. At present, wage earners are compelled to pay black market prices to supplement ration of two hundred grams and if this continues it will be impossible to resist demands for increased wages.

As pointed out in telegram (to be inserted) if black market is broken and amassing programme is fully successful import requirements may not be substantially increased. On the other hand, if ration is not increased 237 black market continues unabated, there is grave risk of partial failure in amassing programme which will necessitate substantial increase in wheat imports. In view of the unanimity of opinion of my Committee, unless I receive specific instructions to the contrary, I propose to announce within ten days that ration will be increased to three hundred grams as of July 1.

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HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394
TEL: 417

13021/P

1 Sep 1944

2 SEP

SUBJECT: Anti-Inflation Committee

1. Attached is a short report of a meeting held in London to discuss in general terms the report of the Allied Anti-Inflation Committee.

2. The memo is passed to you for information and interest. Mr. Lloyd wishes to emphasise that the opinions expressed therein do not necessarily represent the official and definitive British view which has yet to be transmitted to the Combined Chiefs of Staff in Washington.

3. It appears that some time will elapse before a concerted statement on the report is received from the Combined Chiefs of Staff. Meanwhile the implementation of many of the recommendations contained in the report progresses steadily.

A.P. Frazer Smith

Colonel,
Joint Director,
Finance Sub-Commission.

Copy to: Acting Chief Commissioner
Brig. G. R. Wyllie
Col. N. Fiske
IA. Comd. J. J. Lawler
Econ. Officer - Economic Section

APCS/rad

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(i) to supply the minimum of goods necessary to permit interference with the progress of the Italian campaign.

(ii) to rehabilitate local industry as far as possible for reducing imports under (i)

(iii) to promote Italian exports necessary to the Allies.

Mr. [illegible] raised the question of our general responsibility for the volume and the measures that would have to be applied by the Italian Government. It should be their responsibility to make proposals, and it was their task if programmes were not put forward.

Mr. Thornley added that we could not avoid our actual responsibility as stakeholders of the country, and that we could not let the situation go by default of the Italian Government. We have, if necessary, to give them direction for the taking prompt and effective measures to obtain the inflation. Mr. Lloyd agreed with this, and gave an example of the way in which, if the Italian Government did not accept our views (e.g. on the price of wheat) we had in effect to give them directions rather than advice. We could not evade responsibility for the consequences. Mr. Hay pointed out that the Italians might then try to work under directions or cuts as possible in order to fix the responsibility on us.

Mr. Hawe thought that the local anti-inflation campaign should be separated as far as possible from the question of imported supplies since these went in under a programme worked out on supply grounds and in which there was little latitude.

Mr. Hemmond, however, that this way already have made an arrangement too much on Italian goods, whereas there ought to be at least some useful raw materials in any supply which would be of more use in the long run if used to restart local manufacturers Mr. Eden confirmed the shortage of machinery that would impede this policy and the general shortage of almost all useful commodities for industrial purposes.

Mr. Hay suggested that we should nevertheless try to work out a programme for Italy. The decision at the moment was whether Washington would, for political and financial reasons, accept it.

Mr. Turner added that any such programme would greatly improve the possible Italian contribution to European relief. Mr. Thornley and Mr. Eden said it was hard to imagine this being approvable while we had only loads of Italy and while there would be feeling in this country if Italian exports were promoted before our own.

The meeting concluded by thanking Mr. Lloyd for his review and for his having undertaken his visit to Italy. A number of questions arising from the Report were left over for discussion by the Treasury with the Bank of England and the others concerned.

2369

17th August, 1944

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257 / Col. Fisher

HEADQUARTERS
ALLIED CONTROL COMMISSION
Office of the Acting Chief Commissioner
APO 394

AGO/mjp

A/CC 121

24 July 1944

24 JUL 1944

MEMORANDUM TO: Col. G. Upjohn, Acting Head, Administrative Section
Col. A. P. Strafford-Smith, Finance Sub-Commission
Col. R. H. Foley, Finance Sub-Commission
Col. M. E. Finne, Deputy Executive Commissioner
Lt Comdr J. J. Lasker, Economic Section

62-63 60-61

1. Attached is copy of a letter from General Alexander to AFHQ, opposing the recommendation of the Anti-Inflation Committee, of which you were members, that an Allied Economic Council for Italy be created. Although General Robertson proposed to the Chief Commissioner in his letter dated 14 June 1944, copy attached, that an equivalent Board be created of which he should be the Chairman, the present proposal is that the existing difficulties, which AFHQ recognises, should be corrected by giving ACC more participation in the work of the Local Resources Board. This is, of course, a good move but I should like to have your views on General Alexander's letter and suggest that Col. Upjohn preside at a meeting of above addressees and forward me your comments on the attached.

2. I am sending a copy of this letter to the Vice President of the Economic Section whom Col. Upjohn will no doubt desire to have present at his meeting.

Robert Eldor
Major
for ELLERY W. STONE
Captain, USNR
Acting Chief Commissioner

2 Inclos
as above

cc: Col. D'Olyer, Vice President
Economic Section

Col Fisher has Copy
MM 7/7

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247.

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Declassified E.O. 12356 Section 3.3/NND No. 759387

S.E.F.I

63

Subject: - Allied Forces Local Resources (F.L.R.) Board.

The Headquarters,
Allied Forces in Italy,
C.M.F.

3025/C&O.

24 Jul. 44.

Allied Force Head-quarters.

1. My attention has been drawn to the report of a Committee set up by the Allied Control Commission on Anti-Inflation. In Section IV E certain criticisms are made of the working of the Allied Force Local Resources (F.L.R.) Board, and proposals are made for an alternative procedure for the allocation of local resources.

2. I wish to record that I do not agree with these recommendations, and that, in certain respects, I find them quite unacceptable.

3. I am very much aware of the dangers of inflation, and I fully appreciate the importance of an increase in the supply of consumer goods through domestic production to counter inflation. I recognise that the allocation of local resources, including power, fuel, transport and industrial plants, has a very direct bearing on domestic production.

4. It is with the means proposed for dealing with this problem that I find myself at issue.

5. The essence of the criticisms levelled in the report against the working of the Local Resources Board is that, instead of confining itself to allocating among the Armed Forces that amount of local resources which has been found by the Allied Control Commission to be surplus to minimum civil requirements, the Board has abrogated to itself the function of determining also the civil requirement. To some extent there is ground for this criticism. In the first place I do feel that the influence of the Allied Control Commission on the Local Resources Board and its Committees has not received due weight. This, in part, is due to the organisation of the Board itself and I appreciate that certain changes are desirable. Steps have already been taken to effect some of these changes. In particular, the ACC is being asked to nominate the Chairman of some of the Committees. I am afraid, however, that if the influence of the ACC within the Board has not been sufficiently strong this is, in part, due to the fact that the ACC has not been adequately represented. I feel, for example, that the proper person to represent the ACC on the Board itself is the Vice President, Economic Section. This official has [illegible]

Allied Control Headquarters.

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6. There is, however, another aspect of this matter. I do not believe that it is possible to determine the minimum civil requirement as an absolute quantity. For example, the amount of cement which should properly be allocated to civil purposes must be considered in relation to the urgency of military requirements. It cannot be said that a certain fixed quantity of cement is the minimum civil requirement. If there were a complete dearth of cement for the Armed Forces it would be necessary to allocate all the cement available in the country to the Armed Forces, and none to civil use.

7. I am informed that the Local Resources Board has done its best to accept the advice of the ACC in regard to civil requirements. In the case of food, in particular, I am assured that they have never ignored the advice of the ACC representative on this point. In regard to certain other commodities,

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however, they have felt, as I do myself, that the civil requirement must be weighed in relation to the urgency of the military need.

8. To correct the alleged shortcomings of the Local Resources Board, the report proposes the creation of an "Allied Economic Council". A draft constitution for this Council is put forward as an Appendix to the report. The task of this Council would be to assess minimum civil requirements. The Local Resources Board would remain in being and be responsible for allocating the surplus after the civil requirements had been determined. I have given above my reason for saying that these two questions cannot be considered separately. I also feel that machinery whereby every problem has to be examined twice is impossibly cumbersome.

9. There is a fundamental objection in my opinion to the organisation of the Council as proposed. It is stated in the draft constitution that "the Council will bear in mind the overriding priority of the military requirements of the Allied Forces". The composition of the Council does not, however, conform to this sound doctrine. It is proposed that the Chairman of the Council should be the Chief Commissioner of the Allied Control Commission, that the Deputy Chairman should be the Vice President, Economic Section, ACC, and that the members should be my CAO and a representative of C-in-C Med. I do not think that it would be logical for my Chief Administrative Officer to sit as a subordinate member of such a body, and I feel very strongly that, on the contrary, he should be its Chairman, in order that he may hold the balance more conveniently and ensure that the overriding priority of which the report speaks is, in fact, observed.

10. The Local Resources Board is an established organisation. It unquestionably gives satisfaction to the fighting services. Its procedure is understood. I think that it would be a great pity to weaken it by the establishment of a second and overriding body. Improvements, in my opinion, should be sought in the following directions :-

(a) Stronger representation of the ACC on the Board and its Committees.

(b) More effective co-operation between the ACC and the Board.

(c) The establishment by the ACC of means to ensure constant technical review of existing and proposed requisitions, with a view particularly to the better exploitation of Italian industry in the interests of the war effort in its broadest sense.

(d) Progressive transfer to the ACC of the functions of the Board in areas where military considerations have ceased to be important.

It is along these lines that I believe we can progress and satisfy in large measure the anxieties in regard to inflation and other evils which the Allied Control Commission very rightly entertain.

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/s/ H. R. Alexander

General,
Commander-in-Chief.

23.5.44

JD/enb

Copy to: Chief Commissioner,
Headquarters, Allied Control Commission,
C.M.F.

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

Declassified E.O. 12356 Section 3.3/NND No. 759871

COPY

61

Subject: - Co-ordination of Industry.

Headquarters,
Allied Armies in Italy,
C.M.F.
5009/C.M.
14 June 1944.

Chief Commissioner,
Allied Control Commission

I have been giving a good deal of thought to the question of co-ordination of industry in occupied ITALY.

I should like to say at once that I fully appreciate the need for co-ordination, and I agree that the Local Resources Board, while an excellent means for deciding the rival claims of interested parties, is not designed nor competent to exploit industry on an economical basis.

The various members of the Local Resources Board and of its Committees have each their own interests to pursue. Provided that they can gain control of factories to satisfy those interests, they are content. As a result, it does happen that in some cases factories are not run to full capacity, and the removal of plant, etc, from one factory to another takes place without consideration of the effect upon the industry as a whole.

It seems to me that what we want is a body vested with executive powers and, therefore, composed of men sufficiently senior to take decisions. This body would not merely be responsible for allocating factories among the Services, but also for keeping industry as a whole under review, planning for its exploitation and imposing co-ordination wherever necessary.

I do not think that this body should be technical in composition. It would, however require technical advice and it would also require a permanent Secretariat. My first proposal is that the technical advice and the Secretariat should be found from the Industry and Commerce Sub Commission of the ACC.

My second proposal concerns the Chairmanship. It is, of course, quite clear that the Chairman of such a Committee would exercise very considerable influence over the decisions taken. I was at first disposed to say that the Chairman should come from your organisation but, on second thoughts, I do not think that this is really feasible. We are, I am sure, agreed that industry in ITALY has to be exploited primarily to meet the war needs of the armed forces. In fact, Italian Industry under conditions obtaining in this country today can provide [illegible]

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Allied Control Commission

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As to membership, there should be one representative from each of the fighting forces and one from the Industry and Commerce Sub Commission in addition to the Secretariat. I think that it would be useful, also, to have a member from the Local Resources Board.

I am not particular regarding the name for this organisation, but suggest Industrial Co-ordination Board.

Cont/.. Sheet 2....

Declassified E.O. 12356 Section 3.3/NND No. 770987

60

Such a Board would remove from the Local Resources Board power to make allocations of factories to Services. I think, however, that the Local Resources Board should continue to allocate output.

This latter question is a highly technical one and involves frequent discussions. I might instance, for example, the case of the industrial gases plants. The Local Resources Board has made an allocation of these plants to various Services for the purpose of operation, but it makes separate awards regarding the allocation of production, and it alters these allocations frequently to meet changes of circumstances. Under my proposed organization the Industry Co-ordination Board would decide who is to run each plant, and in reaching that decision would have to take account of the probable allocation, but subsequent decisions altering the allocations would be made by the Local Resources Board.

In general I should say that the Industrial Co-ordination Board would have the right to request the Local Resources Board to adjust any of its operations in regard to factories in the interests of better economy and efficiency.

I should be grateful for your views on the above proposals.

/s/ S. R. Robertson

Major-General,
Chief Administrative Officer.

SRR/mch.

Copies to: [illegible], AAI
[illegible], AAI
[illegible], AAI
[illegible], AAI
AFHQ
D/CAO, AAI
Q(AK), AAI
G.2, AAI

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

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

257

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HEADQUARTERS
8 JUL 1944
A. C. C.

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ACC MAIN

N30/08

AFHQ SIGNED SACMED
F69363

CONFIDENTIAL
ROUTINE
CITE...FHQEQ

JULY 071118

REFERENCE YOUR 6544 OF 21 JUNE.
ADVISE WHEN YOUR ANTI INFLATION REPORT WILL BE FORWARDED TO US.

ACC MAIN DISTR

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PA

CONFIDENTIAL

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JULY 081310

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

267 8 JUL 1944

ALLIED CONTROL COMMISSION
INTER OFFICE MEMO

From: Office of the Acting Chief Commissioner FILE No.

SUBJECT: Report of Anti-Inflation Committee 7 July 1944

TO: V.P. Henry Grady, Economic Section
V.P. H. Caccia, Political Section
V.P. S. Reber, " "
Colonel Upjohn, Administrative Section
Brigadier Lush, RC & MG Section

Attached is copy of report of the Anti-Inflation Committee. Will you please inform the Acting Chief Commissioner's Office the number of copies you desire for distribution for your section.

L. D. Densmore
L. D. DENSMORE
Colonel, Sig C
Chief Staff Officer

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

257

CONFIDENTIAL

1270

58

CAB 1

HEADQUARTERS
11 JUN 1944
A. C. C.

AGO 8813

FREEDOM BEGINS SLOWLY

5750

JUNE 10/0555

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CONFIDENTIAL
PRIORITY
CITE #130.4

SUBSTANCE IS APOINT PROBABILITY SOME DELAY IN COMPLETING SUPPLY SECTION OF DEFINITE GENERAL REPORT. IF IT WILL FACILITATE EDITING THIS HEADQUARTERS IS WILLING TO CONSIDER AND FORWARD TO COS A PRELIMINARY REPORT FROM WHICH DETAILED SUPPLY ACTION IS CREATED. IN VIEW OF URGENCY OF EARLY REPORT TO COS THIS PROCEDURE MAY BE DESIRABLE

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

SECRET

57

ALLIED FORCE HEADQUARTERS
G-5 Section
APO 512

CMS/JSB/thh

24 May 1944

SUBJECT: Report of Combined Supply Group from CCAC

TO : Lt. General Noel Mason MacFarlane,
Deputy President, Allied Control Commission

1. We have just received the preliminary draft report of the Combined Supply Group for The Supply Sub-Committee of the Combined Civil Affairs Committee. We have not yet had an opportunity to give it any study. This will be done immediately. In the meantime we are sending two copies for your information and any comments that you may wish to make.

2. It has been emphasized by the Group that this report is purely provisional and should not be accepted as final until such time as the Combined Civil Affairs Committee, for whom it is intended, releases it.

CHARLES M. SPOFFORD,
Colonel, G.S.C.,
Asst. Chief of Staff, G-5.

Incl:
Report by Supply Group

1 copy to Economic Section
1 copy to Executive Group

This copy given to Capt Stone

SECRET

2361

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

56

HEADQUARTERS ALLIED CONTROL COMMISSION
Office of the Secretary General
APO 394

SG 100

3 June 1944

MEMORANDUM TO: Colonel Grafftey-Smith
Colonel Fiske
Colonel Foley
Mr. Lloyd
Commander Southard

There will be a meeting of the Anti-Inflation Committee at 0930 hours on Monday, 5 June 1944, in the Deputy Chief Commissioners' Office, Room 34, Provincia Building.

Robert E. Doe

ROBERT E. DOE
Major, A.C.D.
Secretary General

2364

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

HQ ACC, APO 394
Sec'y Gen
Rec'd May 20 1944
By H.D.

TRANSLATION

File No. 1537

The President of the Council
of Ministers

Palermo, 20 May 1944

To: General Sir Noel Mason MacFarlane
Chief of the Allied Control Commission
Naples

Dear General,

The Manufacturing Commission of the Silurificio Italiano Bein to which work has been commissioned for the Italian Royal Navy informs me that the R.E.M.E. of the Royal Navy have been continuing to remove from the factory valuable materials and machines, certainly obeying a requisition order issued by the Royal Navy several months or so ago.

The removals are made at the shipyards of the Silurificio di Bein and of Pusaro and take that small amount which still remains as indispensable property in order to fulfill the contracted operations. The continuance would oblige the Silurificio to cease all productive activity whatsoever dismissing the six thousand workers employed.

The situation was made known by the Manufacturing Commission to the Allied Authorities directly in contact with the shipyards and they have repeatedly promised their intervention without, however, having stopped, up to the present time, the removals; therefore, I beg of you, dear General, to intervene so as they will cease permanently, be it to protect the interests of the six thousand employed workers, be it to not let die an industry of high and average mechanics or be it finally because the works in progress concern directly or indirectly the common war effort.

Very cordially and sincerely,

/s/ BADOGLIO

2.5.5

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

:::::::::::::::::::::::::
:: HQ ACC, APO 394 ::
:: Sec'y Gen ::
:: Rec'd May 2018/45 ::
:: By H.D. ::
:::::::::::::::::::::::

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Very cordially and sincerely,

/s/ BADOGLIO

Ltr to Secy Gen 57

Office of Flag Officer,
Western Italy,
Naples.

No.FOWIT 913.

23rd May, 1944.

CHIEF COMMISSIONER,
ALLIED CONTROL COMMISSION.
(Copies to:- Flag Officer Taranto, Adriatic and Liaison,
Commodore I.H. Palmer, D.S.C., Naval Sub-Commission).

MARSHAL BADOGLIO'S REPORT

I have been asked by Commodore Palmer to forward you my remarks on Marshal Badoglio's report - Industrial Recovery - 2. Operation of industries which work for the Royal Italian Navy. The Marshal states that the following proposal is indispensable:-

"...Derequisition and place in operation at the earliest possible time the plants of the Cotoniere Meridionali of Naples, which in meeting the entire needs of the Royal Italian Navy could give work to about three thousand workers."

2. It is understood that this group comprises the following factories:-

Naples, Angri, Nocera, Fratti (nr. Salerno) Piedemonte d'Alifi	Cotton yarns and silk fabrics (rayon)
and Prattamaggiore (Hemp canvas).	

3. With the exception of the last named, the Royal Navy has no vital interest in these factories, though in the past small releases of cotton material have been obtained through Allied Force Headquarters Local Resources Board. In the case of PRATTAMAGGIORE however, it is not desirable that there should be any change in the present system of control by the Hemp Board in view of the very important hemp products which are now being produced for the Allied War Effort.

4. From the Royal Navy point of view therefore, there is no objection to these factories being turned over to the Royal Italian Navy with the exception of PRATTAMAGGIORE.

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

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REAR ADMIRAL.

2358

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

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

17 31 MAY Recd R. 9435 C70 53

HEADQUARTERS
ALLIED CONTROL COMMISSION
REGION 2

CA Bn

Ref: A/642

27 May 1944

SUBJECT:- Inflation. Reasons and Measures to Counteract

TO : - R.C. & M.G. Section
H.Q. A.C.C. APO.394
Civil Affairs Branch

8 53

Reference 257/1/3A of 12 May 1944 attached is memo nº 401/1/6 dated 21 May 1944 from the Regional Finance Officer with whose comments and suggestions I am in entire agreement.

John T. Dillard
Col.Inf.
Regional Commissioner

2357

HEADQUARTERS
30 MAY 1944
A. C. C.

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

52 HH 3

Ref.: F /40[illegible] 1 / 6

OFFICE OF REGIONAL FINANCE OFFICER
A. M. G. HEADQUARTERS
REGION 2
C. M. F. 23 May 1944

Subject: Inflation. Reasons and Measures to Counteract-

The REGIONAL COMMISSIONER,
REGION Nº.II.

I refer to letter Nº.267/1/CA of 10.5.44 from the Civil Affairs Branch calling for comments and suggestions for the treatment of the above subject.

2. The following measures would considerably contribute towards checking inflation:

(a) control of public expenditure

(b) adjustment in taxation and the full collection of

(c) control of cost of living and direct price fixing

(d) public borrowing of surplus funds.

3. CONTROL OF EXPENDITURE.

Extravagant and thoughtless expenditure can do much to encourage and stimulate inflation. For the last 20 years Italy has undertaken vast and ambitious public works and her colonial aspirations to obtain self-sufficiency have also contributed to an ever-widening annual deficit in her budget and, at the time of invasion, demands for public finance were staggering and inflation had already set in.

(i) Public expenditure continues to be high and from what I have seen there has been little real effort on the part of Italian senior officials to realize that Italy is now undergoing a very critical stage of reconstruction during which sound administration of finance and the sparing and wise use of public funds will play an important role in re-assuring the public of the governments intention to stabilize the country's currency and economic life and to bring security to those people who have parted with their

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(ii) During a war, public works and services must continue: epidemics must be avoided and public health maintained at the expense of social development. Large and premature demands are being made on the Exchequer to provide for complete reconstruction of bombed buildings and bridges on their original sites without regard to future town planning and road re-alignment. Expenditure on public works should be reduced and confined to maintenance and care and repairs of a temporary nature to house the homeless and refugees and to restore essential communications of a military necessity. Building materials are scarce and any heavy demands

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

Ref: F /4C1 1 /6

OFFICE OF REGIONAL FINANCE OFFICER
A.C. HEADQUARTERS
REGION 2
C.M.F.

23 May 1944.

for public works will encourage an upward flight in prices and increase the cost of construction and provide small relief for unemployment. On the other hand, public works involving the employment of large gangs of labour such as on road maintenance, harvesting, anti-malarial and typhus measures, etc. will relieve those provinces with acute unemployment problems, restore self-respect and stability and reduce the large unproductive expenditure on relief and assistance.

(iv) Under ACC conditions control of expenditure can only be effectively applied through the Italian fiscal system and by bringing home to responsible officials of the large spending departments the gravity of the situation and the importance of wide and rigid economy in all branches of the service if they are to survive a national disaster. It is within the power and scope of these officials to stem that measure of inflation which is the direct result of unchecked and wasteful expenditure. The Italian Government should therefore appeal to the heads of all branches of the service for their loyal co-operation and support in tackling the tremendous task before it. I have found that a straight talk to some of these officials in Region No1 has had a sobering effect and I intend to use similar methods in this region.

4. ADJUSTMENT IN TAXATION AND THE FULL COLLECTION OF TAXES.

It will never be possible to balance a war-time budget by revenue earnings but increased expenditure should be partially off-set by increased taxation. The incidence of increased taxation should, however, fall on that part of the community which can afford to pay and not on the poorer classes, directly or indirectly, whose wages have remained static for fear of inflation. Income Taxes, Super Taxes and War Profits Tax are the most lucrative and equitable channels through which excess profits can be tapped because of the existing machinery for collection. New taxes may be politically unsound and too costly to collect and administer. Simultaneously with the examination of the ways and means for introducing increased taxation, the present machinery for assessment and collection

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

be effectively applied through the Italian fiscal system and by bringing home to responsible officials of the large spending departments the gravity of the situation and the importance of wide and rigid economy in all branches of the service if they are to survive a national disaster. It is within the power and scope of these officials to stem that measure of inflation which is the direct result of unchecked and wasteful expenditure. The Italian Government should therefore appeal to the heads of all branches of the service for their loyal co-operation and support in tackling the tremendous task before it. I have found that a straight talk to some of these officials in Region N°1 has had a sobering effect and I intend to use similar methods in this region.

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collectors is restricting the steady flow into the public Treasuries, such officials should be replaced. ACC Finance and Revenue Officers are constantly touring the provinces and communes in connection with revenue matters and they have become acquainted with many of the defects in the revenue collecting system. The Italian Government would be well advised to take advantage of the many suggestions put foward by ACC even if it means retiring officials who, because of age and inefficiency, have become inactive and stale. Attempts to evade or falsify returns of income must be severely punished and the law should provide adequately to combat such offences.

5. CONTROL OF COST OF LIVING AND DIRECT PRICE FIXING.

The welfare of the masses can best be secured by the stabilization of the cost of living. Fixing of prices of essential commodities within the reach of ordinary incomes is also the most effective way of preventing inflation. At present many of the prices have got out-of-hand and are beyond the reach of the ordinary wage and salary earners unless they dispose of their personal belongings and their homes or use up their savings in order to make up that difference between their incomes and the ruling inflationary prices. But a time must arrive when all their possessions have been converted into cash and nothing remains.

(ii) Price control, even in our own countries, has given the authorities much worry and anxiety and, in Italy, where there are two armies locked in a gigantic struggle, the problem becomes much more pressing and difficult to solve. There are too many opposing factors involved to permit of simple countermeasures for example:-

(a) The needs of the occupying armies are predominant and although the obligation to feed the civilian population rests upon the occupying Powers, Quartermasters and Messes purchase at will and in

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(a) The needs of the occupying armies are predominant and although the obligation to feed the civilian population rests upon the occupying Powers, Quartermasters and Messes purchase at will and in bulk at any price to secure the foodstuffs and other commodities they need and, in doing so, reason in value of Sterling and Dollars and feel that they are doing the country a good turn by overpaying, forgetting, however, that they are not only subscribing to inflation in this country but are also assisting the same evil in their own countries.

(b) The high and artificial level of wages paid to personnel employed by the Armed Forces which also includes a liberal ration of bread enables a certain section of the community to support inflationary prices.

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

Although it is only natural for a head of a family to seek means by which to live, the attraction of high wages has produced in some agricultural provinces an acute shortage of labour which may have serious repercussions on the price of grain during the forthcoming harvest. Wages must be fixed with regard to local cost of living, especially as to food, and cannot be fixed in relation to prices or wages in neighbouring or our own countries.

(c) In Southern Italy, the composition of the Black Market is a different proposition. There are two predominant classes, the rich and the poor: many of the poor are compelled or prefer to live by their wits and the rich do not hesitate to go underground when necessary to satisfy their needs: both have at present little feeling for community spirit and display a marked apathy in present day matters of national importance.

There are three markets in operation (a) the official market where goods are bought and sold at official prices: (b) the Black Market proper, where goods in large quantities change hands at the highest prices obtainable and (c) a third market where goods are retailed openly at higher prices than the official ones and where the public who can afford to pay are able to supplement those articles which are rationed. It is therefore understandable why most of these articles find their way into the markets which offer best prices.

The former Italian Government admitted its inability effectively to control these unofficial markets and by sheer weight of circumstances AMG fought a losing battle, consequently, the markets are still operating with this difference that in AMG regions the present domestic political situation has weakened the hands of the local authorities.

Although many of the mistakes made in the last war have

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Although many of the mistakes made in the last war have been avoided, increase in cost of living and wages during this war has been universal. The cost of replacement and production is higher and there is some justification for a corresponding increase in prices which cannot be determined as uncontrolled inflation. A small adjustment in wages may also be necessary. On the other hand there is no justification for eggs being sold at 12 lire each, bread at 120 lire and more per kilo and a pair of ordinary shoes at lire 4000.

Whether the conditions are ACC or AMG, the final responsibility for preventing any economic deterioration must

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

Ref: F 1 [illegible] 1 1 5

OFFICE OF REGIONAL FINANCE OFFICER
A C HEADQUARTERS
REGION 2
C.M.F. 23 May 1944.

remain with the Allied Control Commission but it would be very comforting if the Italian authorities operating under ACC conditions could be relied upon to take strong and effective measures against those persons who commit offences against the economic laws of the country. It must be recalled that the Italians have already sampled the handsome profits to be derived from illicit dealings in grain and other commodities and whatever prices are fixed and whatever schemes for control are evolved, the attractions of the Black Market will continue to claim its supporters unless the law and the judges are strong enough to prevent it. Time for experimenting and taking a risk has passed and if the Italian authorities prove that they are unable to cope with the situation, ACC must be prepared to step in and, if necessary, call upon the military to render assistance to force dishoarding, to provide safe transport and to detect the operators of the Black Market. In which case a Cost of Living and Price Control Committee under ACC Officers with summary powers to imprison, fine and confiscate may be necessary at each Provincial Headquarters.

As a step towards controlling the transfer of grain and other essential commodities, all commercial transportation should be registered and no movement between provinces permitted unless under written permission. These duties could be carried out by the Carabinieri if civil control posts were established at provincial boundaries.

Loose and ineffective rationing also leaves an open door for supplies to reach the Black Market. This equally applies to military since quite an appreciable quantity of foodstuffs and stores flow into the markets from military sources. Rationing is not purely financial or monetary and can only be effectively controlled by a number of forces at the disposal of specialist departments and the Italian Government.

6. BORROWINGS OF SURPLUS FUNDS.

The absence of foreign markets, reciprocal trade and other sound investments has permitted the accumulation of surplus

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

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G. BORROWINGS OF SURPLUS FUNDS.

The absence of foreign markets, reciprocal trade and other sound investments has permitted the accumulation of surplus and unproductive funds of a significant size. These funds can be borrowed by the Italian Government if they are asked for properly. The first step the Italian Government must do is to restore public confidence in state finances and to show the people that their future and savings are safe. Economy and reduction in public expenditure, equitable taxation and complete collection of taxes and an exhaustive overhaul of its Civil Service may well have the effect of reviving national and financial interest in the people and lay the foundation for the building a popular and good government.

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

Ref: F / 405 / 1 / 5

OFFICE OF REGIONAL FINANCE OFFICER
A . C. HEADQUARTERS
REGION 2
C. M. F.

H 17

-6-

23 May 1944.

The Government now needs to launch an economy campaign and if this can be synchronized with the victorious march of the United Nations and a call on the people to invest their savings in government securities on the lines of "Salute the Soldier", "Lend to Defend", etc., Italy may well be one of the first countries to extricate herself but any success must rely on the sound administration of public funds.

A.G. TUBB
Lieut-Colonel
Regional Finance Officer
Region II.

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"Lend to Defend", etc., Italy may well be one of the first countries to extricate herself but any success must rely on the sound administration of public funds.

A.G. Tibb
Lieut-Colonel
Regional Finance Officer
Region II.

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

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30 MAY Recd 257/8/CA C.A B.W U H6

9397

HEADQUARTERS REGION VII

ALLIED CONTROL COMMISSION

File Ref RVII/Fin/602/63. Date 25th May, 1944.

SUBJECT: Inflation Committee - Assignment - Major Blackwell.

TO: Executive Commissioner,
No. Allied Control Commission.

1. Reference 257/8/CA dated 17 May, 44, subject: Inflation Committee, from Executive Commissioner to Regional Commissioner, Region VII, in which it is stated that Major J.M.Blackwell has been nominated to serve on the special committee on inflation problems.

2. Major J.M.Blackwell, on duty in Catanzaro Province, is performing the following duties which now occupy his full time:
"Peoples Granary" duties for Catanzaro Province,
Refugee officer for Catanzaro Province,
Refugee officer for Region VII.
This Region has no Welfare Officer and Maj. Blackwell has performed such of those duties as have required immediate action.

3. With the small number of officers actually assigned to provinces and the headquarters staff of this Region, Major Blackwell's services are urgently needed here, at this time. The "Peoples Granary" situation is far from satisfactory here, partly because of delay in receiving the decree, blank forms, and administrative instructions. It is, therefore, necessary to concentrate our efforts and supplement the work of the Region Agriculture Officer. Maj. Blackwell's duties as Refugee Officer for the Province of Catanzaro and the Region do not occupy his full time at the moment but do require continued and detailed attention.

4. If Maj. Blackwell is taken away I have no officer to replace him at this time without neglecting other duties equally essential. I, therefore, request that Maj. J.M.Blackwell remain here or be replaced by an officer competent to take over his duties.

5. As an aside, may I call attention to the fact that while I seem, from the nominal roll, to have a large special staff at Region Headquarters, no less than seven of them are only nominally Region officers because they are entirely occupied with projects allotted to them by various sub-commissions of ACC which cannot be discontinued. Moreover, at least one of the remainder, Major Watts, is already slated for removal.

ROBT. G. KIRKWOOD,
Colonel, FA., US Army
Regional Commissioner. 2311

HEADQUARTERS
30 MAY 1944
A. C. C.

ALLIED CONTROL COMMISSION - OUTGOING MSAGE

CLASS: SECRET

PREC : PRIORITY

FROM : ACC MAIN FROM MACFARLANE PERSONAL

TO : AFHQ TO SAC MED FOR MCS

REF NO: M211
22 May 1944

Reference your M8558 of 20 May. Basic proposal is that increase of ration is indispensable element in whole amassing and price control program. Proposal has not repeat not been put forward merely on financial grounds. Following message is from supply point of view only. Proposal is not repeat not designed to increase total consumption of bread. Although ration is two hundred grams the average urban consumption of bread from all sources is estimated to be more than three hundred grams. Therefore the effect of increase in ration to three hundred grams will be designed to reduce black market demand rather than to increase total consumption of wheat in area. Your question one. Based on experience to date in AMG Region III our experts have every confidence in being able to enforce reduction of ration card holders to 65% of population by July 1, 1944. The increase of basic ration itself should ensure attainment of this objective by easing administrative difficulties and by obtaining increased cooperation of Italian authorities. Your question two. Our estimated goal of quantity to be amassed is 693,000 tons, 385,000 tons Italy, 58,000 Sardinia, 250,000 Sicily. This is computed on basis of early estimate of total crop less legal retentions for food and seed. Thus there is no allowance for leakage to black market except for illicit sales in black market out of permitted retentions. However yield is computed at 8 quintals per hectare which is now considered as conservative in light of present crop conditions. Your question three. Impossible to estimate the extent quantitatively but we are convinced that the effect of [illegible] will be very substantial and indeed in-

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

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1. CURRENCY.

There is evidence that the enemy has left behind in the hands of persons friendly to his certain quantities of currency. Doubtless this currency has been used in espionage and for other purposes all of which add to inflation. It is quite probable that as the enemy continues his retreat he will leave behind more currency since the further North he goes the less important will be Italy's economic structure to him. Therefore, the destruction of the economic structure will become more and more harmful to us and less harmful to the Germans.

2. PURCHASES BY TROOPS.

The purchase by troops of civilian goods is of some importance in connection with inflation. In the early days of the occupation of Italy, the troops were furnished with no yardstick by which they could ascertain which were fair prices. This has been corrected to some extent by educational publicity. However, such publicity carried on in a systematic manner would doubtlessly have a dampening effect on the inflationary process.

3. PURCHASES FOR EXPORT.

During the past several months, considerable quantities of food have been purchased for export to the U. K. and America. Whether occupational currency has been used for the purchase of these goods, it has caused inflation due to adding considerable quantities of currency to the amounts in circulation. If there were some means by which food items imported into Italy could be traced by the Allies for the export items, it would keep this excess of currency out of circulation and therefore have a tendency to prevent inflation.

4. CONTROL OF PRICES.

During our occupation we have attempted to control prices on a great number of items. In most cases this control has not been effective and it is very doubtful whether the control of a large number of prices could be enforced. If a very few of the most essential items in the cost of living could be completely controlled it would have the dual effect of reducing the essential costs on living and a greater regard for our orders in connection with price control.

5. REQUISITIONING.

Inflation has been encouraged by uncontrolled requisitioning. The requisitioning of more billeting space than is needed has led to a crowded condition in the city and caused the rental prices to go far above normal. Many items have been requisitioned which according to all the rules are barred. It has come to the attention of the Economics section of Region 3, that even bread meant for distribution under the rationing system to civilians had been requisitioned by French troops, with the result that the civilians for whom the bread was made were obliged to go to the black market and purchase bread at black market prices. If a central control system could be established all requisitions must be filed within a certain period of time, it would discourage unauthorized requisitioning.

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6. TRANSPORTATION.

The lack of transportation in the occupied area is one of the most important causes of inflation. All available transportation should be controlled in such a manner that it could be used with a view of keeping prices of the essentials in the cost of living down. The charge for motor fuel and lubricants for the essential transportation should not be allowed to rise above the normal increase in wages and the essentials in the cost of living.

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

22 MAY Rec'd 257 PSB/AMG 22

FLW/aeh

HEADQUARTERS
A.M.G. REGION V
C. M. F.

21 May 1944

CAB

Ref. : H5/512/P/3

SUBJECT: Inflation control.

TO : Regional Control and Military Government Section, Headquarters, Allied Control Commission, APO 394.

Reference letter Civil Affairs Branch even subject dated 10 May.

1. In accord with recent instructions from your section on the above subject, a study of the situation in this region indicates that an approach to the control of inflation in Italy at this time points to a proper curbing of prices of the essentials of life for the bulk of the people of Italy--the great mass of farm and industrial workers.

2. It seems desirable that the prices of these commodities be controlled and a concomitant adjustment of the wages of labor be made in order that labor will be enabled to obtain an adequate amount of these essentials to feed, clothe and house the laborer and his family in accordance with the basic standard of living in Italy at this time. This latter statement is made, not on the grounds that it is the belief that the present standard of living of the Italians is sufficiently high, but rather on the grounds that the present time is not deemed appropriate to attempt materially to raise the standards of living until a sufficiently careful study has been made of the method and means, adjusted to meet a world-wide evolution rather than for the betterment of a comparatively small group of some 35 to 40 million in Italy.

3. Accordingly, the price of the following named essential products and their processing should be held as low as is consistent with the cost of production, manufacture, labor and distribution, with due allowance for a small living income to investors in the agencies involved.

4. The following named basic commodities:

Grain (wheat and barley; dried fave and ceceri)
Oil and wine
Cotton and wool
Leather

should be kept at the minimum price consistent with the cost of

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production, labor, manufacture and distribution--elements which should be subjected to corresponding control.

5. Labor. Essential also to this programme is the need to return many Italians to useful employment in the field of production in the principal industrial efforts of Italy.

Persons on relief should be reduced to an absolute minimum. No person able to work should be maintained at the expense of the state, but should be employed in a general national rehabilitation programme.

6. The income of the country should be increased by appropriate taxes, which should be strictly collected and the expenditures geared to the income.

7. The army and navy should be demobilized and expenditures for naval defense limited to a coastal patrol service and customs guards, with an army of 10,000 men for frontier guard, in addition to the necessary civil police.

F. L. Whitley

F. L. WHITLEY,
Colonel, G. S. C.,
Regional Commissioner.

Copy to Provincial Commissioner, Foggia Province
Campobasso Province

Civil Affairs Branch
Food Sub-Commission

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

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2177/IRPO
20 May 1944

COLONEL FISKE

Reference Sub-Committee - Rehabilitation of Industry & Commerce

1. Thinking over the observations made by Mr. Wickersham at this morning's conference and your request for ideas, I submit the following for consideration. I often give a little thought to the conditions at present reigning in this part of the world and I feel fairly convinced that the future of this people depends on themselves, but, that one or two simple pointers might be helpful to all concerned.

2. A) What can be done in an attempt to get this disillusioned people thinking along less abnormal lines?

2. B) Develop education on a sound basis, is perhaps the correct answer, + can only be developed slowly, on a long term policy.

(i) To attempt this, the people must get the right frame of mind.

(ii) To get the people thinking along less abnormal lines it is necessary for them to be happy and more or less contented.

(iii) To enjoy happiness, work is essential.

(iv) During a recent visit to Calabria the people were obviously much happier than the people in and around Naples - they, were fully occupied on the land.

3. It is suggested that the Italian Government be asked to set up a commission with power to make a complete survey and make recommendations so that the Italian Government can be in a position to issue orders to concerns, to the effect that they will restart without delay if the commission considers such re-establishment useful, reasonable and within the bounds of possibility.

Lt Col A.D.C.

2542

SECRET

ALLIED CONTROL COMMISSION

ENCRYPTED MESSAGE

NF /hd

38

Msg Center No. 12/21 — Date/Time Rec'd: May 201955

Classification: SECRET — Date/Time Sent: May 201955

Precedence: PRIORITY — Reference Nr.: F 48558

From: SIGNED SACMED — Cite: MBMS

To: ADC MAIN FOR MACFARLANE

- - - - - - - -

Increase of bread ration receiving urgent consideration here. Refer M194 of 12 May and M207 of 19 May. Appreciate anti inflation aspect presented by new Committee and importance of move from Finance standpoint. However effect of increase on supply program less clear. Appreciate advice your supply experts based on close contact with conditions not known to us. Grateful therefore for explanation of facts or estimates possibly not available here which have led to view that necessary importations would probably not exceed amounts required under present ration. Specifically request your best judgment on following:

(1) Actual likelihood of reduction of bread ration card holders to 65 per cent of population and estimated date at which this will become effective.

(2) Tonnage of this years crop which will be amassed in ITALY, SICILY and SARDINIA, respectively, under current program.

(3) Extent to which amassing would be affected by prior announcement of increased ration.

(4) Feasibility of adjustment of laborers ration as alternative to general increase to entire population. Since ration increase would amount to irrevocable commitment to population of all liberated ITALY which would have to be met by imports to extent that various programs fall short of estimates, announcement

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

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(2) Tonnage of this years crop which will be amassed in ITALY, SICILY and SARDINIA, respectively, under current program.

(3) Extent to which amassing would be affected by prior announcement of increased ration.

(4) Feasibility of adjustment of laborers ration as alternative to general increase to entire population. Since ration increase would amount to irrevocable commitment to population of all liberated ITALY which would have to be met by imports to extent that various programs fall short of estimates, announcement would not be made until effect on Theater supply position can be fully appraised. Moreover increase to extent proposed would require prior approval by Combined Chiefs of Staff. Accordingly you are instructed not to announce increase, as suggested your M207 current.

2342

DISTRIBUTION:

ACTION: Deputy Chief Commissioner

INFO: Chief Commissioner
Col. Grafftey-Smith
Col. Foley
Lt Comdr Lawler
Col. Upjohn
Col. Fiske
Mr. Glasser
Mr. Lloyd
Col. Adams
Col. Legg

SECRET

HQ ACC, APO 394
Sec'y Gen
Rec'd 21 May 1050B
By H.D.

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

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

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SECRET

ALLIED CONTROL COMMISSIO

OUTGOING MESSAGE

Reference No M207

Office of origin: GEN MACFARLANE (CHIEF COMM)

Classification: SECRET

Precedence: PRIORITY

To: AFHQ

Date: 19 MAY 1944

Telephone No: V. 16

Originating Officer: CAPT. STONE

I HAVE APPOINTED A SPECIAL COMMITTEE CALLED QUOTE ALLIED ANTI DASH INFLATION COMMITTEE PAREN ITALY PAREN END QUOTE TO RECOMMEND ALL MEASURES TO COMBAT INFLATION PD CHAIRMAN CAPTAIN HILARY W STONE CMA USNR PD MEMBERS CLN COLONEL A F GRAFFTEY DASH SMITH CMA COLONEL E H FOLEY JR CMA MISTER H GLASSER CMA MISTER E M H LLOYD CMA COLONEL G UPJOHN CMA COLONEL N E FISKE PD PARA PAREN TO AFHQ FOR MGS CMA BRITISH MINISTER RESIDENT AND AMERICAN POLITICAL ADVISER FROM ACC MAIN FROM MACFARLANE PERSONAL PAREN AT ITS FIRST MEETING CMA THE COMMITTEE WAS STRONGLY OF THE OPINION THAT THE ACTION RECOMMENDED IN MY M ONE NINE FOUR OF ONE TWO MAY IS INDISPENSABLE TO CONTROL OF INFLATION PD IT RECOMMENDED TO ME THAT THE INCREASE IN THE BREAD RATION BE INTRODUCED SOONEST IN ORDER TO BREAK THE BLACK MARKET PRICE AND THEREBY ENCOURAGE THE AMASSING PD THE HARVEST BEGINS ABOUT JUNE FIRST PD PARA THE COMMITTEE ATTACHED PARAMOUNT IMPORTANCE TO PREVENTING FURTHER RISE IN WAGES AS CENTRAL POINT OF ANTI INFLATION POLICY PD AT PRESENT WAGE EARNERS ARE COMPELLED TO PAY BLACK MARKET PRICES TO SUPPLEMENT RATION OF TWO HUNDRED GRAMS AND IF THIS CONTINUES IT WILL BE IMPOSSIBLE TO RESIST DEMANDS FOR INCREASED WAGES PD PARA AS POINTED OUT IN TELEGRAM M ONE NINE FOUR IF BLACK MARKET IS BROKEN AND AMASSING PROGRAM IS FULLY SUCCESSFUL CMA IMPORT REQUIREMENTS FOR WHEAT MAY NOT BE SUBSTANTIALLY INCREASED PD ON THE OTHER HAND CMA IF RATION IS NOT INCREASED AND BLACK MARKET CONTINUES UNABATED CMA THERE IS GRAVE RISK OF PARTIAL FAILURE IN AMASSING PROGRAM WHICH WILL NECESSITATE SUBSTANTIAL INCREASE IN WHEAT IMPORTS

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

M207, 12 May 1944, to AFHQ, (cont'd):

FD PAPA IN VIEW OF THE UNANIMITY OF OPINION OF MY COMMITTEE CMA UNLESS I RECEIVE SPECIFIC INSTRUCTIONS TO THE CONTRARY CMA I PROPOSE TO ANNOUNCE WITHIN TEN DAYS THAT RATION WILL BE INCREASED TO THREE HUNDRED GRAMS AS OF JULY FIRST CMA WHICH IS THE EARLIEST DATE THAT SUPPLIES IN SIGHT WILL PERMIT FD I HAVE NATURALLY DISCUSSED THE INFLATION DANGER WITH SEVERAL MEMBERS OF THE ITALIAN GOVERNMENT AND ALL REMAND AN INCREASE IN THE BREAD RATION AS A SINE QUA NON AMONG ANY PREVENTIVE MEASURES WHICH MAY BE TAKEN

Content and classification
authenticated by:

ROBERT E. DOW
Major, A.G.D.
Secretary General

DISTRIBUTION:

Col. A.P. Crawley-Smith
Col. E.H. Foley, Jr.
Mr. H. Glasser
Mr. E.M.H. Lloyd
Col. G. Upjohn
Col. H.E. Blake

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

SECRET 254 Col. Fisher

1207

GEN MACARTHUR (CRIEF COMD)

SECRET

PRIORITY

19 MAY 1944

V. 16

CAPT. STONE

AFHQ.

I HAVE APPOINTED A SPECIAL COMMITTEE CALLED QUOTE ALLIED ANTI DASH INFLATION COMMITTEE DASH ITALY DASH END QUOTE TO RECOMMEND ALL MEASURES TO COMBAT INFLATION PD CHAIRMAN CAPTAIN ELLERY W STONE USNR PD MEMBERS CIN COLONEL A P GRAFTON USAR SMITH CMA COLONEL E H FOLEY JR CBA MISTER F GLASSER CBA MISTER E M H LLOYD CMA COLONEL G GRIGGS CMA COLONEL M E PEEK PD PARA As FOR TO AFHQ FOR MGS CMA MEMBER MINISTER RESIDENT AND AMERICAN POLITICAL ADVISER FROM ACC MAIN FROM MACFARLANE PERSONAL FROM AT ITS FIRST MEETING CMA THE COMMITTEE WAS STRONGLY OF THE OPINION THAT THE ACTION RECOMMENDED IN MY M ONE NINE FOUR OF ONE TWO MAY IS INDISPENSABLE TO CONTROL OF INFLATION PD IT RECOGNIZED TO BE THAT THE INCREASE IN THE BREAD RATION BE INTRODUCED SOONEST IN ORDER TO BREAK THE BLACK MARKET PRICE AND THEREBY ENCOURAGE THE ARRIVING TO THE FARMER BEING ABOUT JUNE FIRST PD PARA THE COMMITTEE ATTACHED PARAMOUNT IMPORTANCE TO PREVENTING FURTHER RISE IN WAGES AS CENTRAL POINT OF ANTI INFLATION POLICY PD AT PRESENT WAGE EARNERS ARE COMPELLED TO BUY BLACK MARKET FOODS TO SUPPLEMENT RATION OF TWO HUNDRED GRAMS AND IF THIS CONTINUES IT WILL BE IMPOSSIBLE TO RESIST DEMAND FOR INCREASED WAGES PD PARA

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

SECRET

M207, 19 May 1944, to AMS, (cont'd):

AS POINTED OUT IN TELEGRAM M ONE NINE FOUR IF BLACK MARKET IS BROKEN AND ARMISTICE PROGRAM IS FULLY SUCCESSFUL CMA IMPORT REQUIREMENTS FOR WHEAT MAY NOT BE SUBSTANTIALLY INCREASED FD ON THE OTHER HAND CMA IF RATION IS NOT INCREASED AND BLACK MARKET CONTINUES UNABATED CMA THERE IS GRAVE RISK OF INITIAL FAILURE IN ARMISTICE PROGRAM WHICH WILL NECESSITATE SUBSTANTIAL INCREASE IN WHEAT IMPORTS FD PARA IN VIEW OF THE UNANIMITY OF OPINION OF MY COMMITTEE CMA UNLESS I RECEIVE SPECIFIC INSTRUCTIONS TO THE CONTRARY CMA I PROPOSE TO ANNOUNCE WITHIN TEN DAYS THAT RATION WILL BE INCREASED TO THREE HUNDRED GRMS AS OF JULY FIRST CMA WHICH IS THE EARLIEST DATE THAT SUPPLIES IN SIGHT WILL PERMIT FD I HAVE NATURALLY DISCUSSED THE INFLATION DANGER WITH SEVERAL MEMBERS OF THE ITALIAN GOVERNMENT AND ALL REGARD AN INCREASE IN THE BREAD RATION AS A SINE QUA NON AMONG ANY PREVENTIVE MEASURES WHICH MAY BE TAKEN

Content and classification
authenticated by:

ROBERT E. DOE
Major, A.G.D.
Secretary General

DISTRIBUTION:

Col. A.P. Grafftey-Smith
Col. E.H. Foley, Jr.
Mr. H. Glasser
Mr. E.M.H. Lloyd
Col. G. Wyckoff
Col. N.E. Fiske

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

HEADQUARTERS ALLIED CONTROL COMMISSION
Office of the Secretary General
APO 394

RED/dfe

SG 100.

18 May 1944

MEMORANDUM TO: All Concerned.

There will be a meeting of the Allied Inflation Committee (Italy) tomorrow morning, 19 May 44, at 1000 hours in Room 24, Provincie Building.

Robert E. Dee

ROBERT E. DEE
Major, A.G.D.
Secretary General

DISTRIBUTION:

Col. A.P. Crawfurd-Smith
Col. E.H. Foley, Jr.
Mr. H. Glauser
Mr. E.M.H. Lloyd
Col. G. Upjohn
Col. N.E. Fiske

Meeting: 9:30 Monday

INFLATION

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ALLIED INFLATION COMMITTEE (ITALY)

Points for discussion submitted by Mr. Glasser and Mr. Lloyd.

1. The monetary elements of the present situation. From 1 July 1943 to 31 March 1944:

(a)	The Italian Government has spent	28 billion lire	
	The Allied armies and soldiers have spent	15 "	"
(b)	Currency circulation has increased	43 "	"
	(i) AM Lire 17.5		
	(ii) Metropolitan Lire (1) 3.0		
		20.5 "	"
	Tax receipts	3.0 "	"
	Net investment in Government bonds and postal savings	1.5 "	"
	Bank deposits have increased (balancing item only - independent calculation based on Naples and Bari figures indicate about 12 for whole area)	19.0 "	"
		43.0 "	"

(1) estimated from expenditures of Italian Government from funds "supplied from Rome before occupation".

All of these figures refer to total area now occupied by Allied armies. Some of the Government expenditures were therefore Fascist or German expenditures. All figures except "Allied expenditures" are subject to wide margin of error since available government figures include duplications and other figures do not exclude inter-bank transactions and similar errors.

(c) In July 1943 bank deposits were probably about 30 to 40 billion and notes in circulation were probably not more than about 20 billion, making a total of 50/60 billion. There has thus been an increase of deposits and notes of the order of 70 to 80 per cent during the nine months to March 31st.

(d) The Government deficit is now running at about three billion per month and Allied expenditure at 1.8, total 4.8, which represents an increase of about 5% per month in total means of payment, amounting to approximately 90/100 billion.

(e) Retail food index including substantial and necessary purchases in black or uncontrolled markets, has increased about seven times since July 1943. Wages have probably not more than doubled. The price of wheat has recently been increased to about three times the level ruling in November 1943. The food index after rising sixfold during the last six months of 1943 has remained fairly stable during the first four months of 1944. The main contributing factor

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postal savings	1.5	"	"
Bank deposits have increased (balancing item only - independent calculation based on Naples and Bari figures indicate about 12 for whole area)	19.0	"	"
(1) estimated from expenditures of Italian Government from funds "supplied from Rome before occupation".	43.0	"	"

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(c) In July 1943 bank deposits were probably about 30 to 40 billion and notes in circulation were probably not more than about 20 billion, making a total of 50/60 billion. There has thus been an increase of deposits and notes of the order of 70 to 80 per cent during the nine months to March 31st.

(d) The Government deficit is now running at about three billion per month and Allied expenditure at 1.8, total 4.8, which represents an increase of about 5% per month in total means of payment, amounting to approximately 90/100 billion.

(e) Retail food index including substantial and necessary purchases in black or uncontrolled markets, has increased about seven times since July 1943. Wages have probably not more than doubled. The price of wheat has recently been increased to about three times the level ruling in November 1943. The food index after rising sixfold during the last six months of 1943 has remained fairly stable during the first four months of 1944. The main contributing factor has been the increase in the bread ration early in February.

(f) In the light of the above, the situation appears dangerous but by no means desperate. The public are willing to hold cash and savings, and there is no wide-spread distrust of money. With new money being pumped in at the present rate, a most dangerous situation would arise if people became unwilling to hold money and bought goods at any price.

(g) If the peasants in particular were to refuse to take paper money and preferred to hold their crops, it would be necessary to increase imports enormously in order to feed the towns and prevent a runaway inflation.

2. Programme for immediate action

(a) Formulation of a price programme which will take into account the need for government revenue, the gradual elimination of subsidies, the maintenance of controlled prices and wages, and the elimination of the black market.

(b) Stabilisation of money wages, but in order to achieve this it may be necessary to increase the calorie content of the food ration (rations now supply only about 800 calories, the balance being obtained at black market prices).

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(c) The organization of a committee which will administer price policy; which will act in advisory capacity on all price questions under a procedure which will not permit price questions arising in any part of ACC/AMG to be decided without passing through the price policy committee.

(d) The immediate formation of a committee to formulate an import programme (other than for basic foods).
(Based on CAL Airgram 5 of Nov 30, 1943.).

(e) The immediate formation of a programme of industrial rehabilitation for civilian needs - to be correlated with the import programme. The emphasis to be placed on production of shoes, textiles, fertiliser and small tools.

(f) An answer prepared immediately to question asked in COS cable of April 17 on stabilization.

(g) Discussion of Financial Proposals:

Expenditure policies of the Italian Government.
Reform of tax system and tax administration.
Emergency anti-inflation measures.
Public Debt and banking reform.

Subcommittee on program of industrial rehabilitation
Fiske
Lloyd
Blaisdell

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Col. Fiske

DIRECTIVE

SUBJECT: Appointment of a committee to consider the existing financial situation in Italy and to make recommendations as to the measures which should be adopted to check the present tendency towards inflation.

1. The following committee is hereby appointed. It will be known as the Allied Inflation Committee (Italy):-

Chairman - Captain Hilary W. Stone, USNR.

Members - Colonel A.P. Grafftey-Smith.

Colonel E.H. Foley, Jr.

Mr. H. Glasser.

Mr. R.M.H. Lloyd.

Colonel G. Upjohn.

Colonel H.E. Fiske.

2. Terms of Reference :-

To suggest any measures they consider necessary to stop the existing tendency towards inflation in Italy's currency.

3. The Committee will carry out its task as expeditiously as possible.

4. The Committee will report to the Chief Commissioner.

5. The Committee will meet at such times and places as the Chairman may

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5. The Committee will meet at such times and places as the Chairman may direct.

6. The Chairman has the power to call in evidence any American, British or Italian personnel. As may be found necessary, the Chairman may co-opt any British or American personnel in Italy.

(Sgd) NOEL MACFARLANE
NOEL MASON MACFARLANE,
Lieutenant-General,
Chief Commissioner.

17th. May, 1944.

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(Sgd) NOEL MACFARLANE

Noel MASON MACFARLANE,
Lieutenant-General,
Chief Commissioner.

17th Nov, 1944.

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MEMORANDUM 17 May 1944.

SUBJECT: Inflation.

TO : Deputy Executive Commissioner.

1. This will present for your consideration in your capacity as chairman of the special committee on inflation, an unpopular topic which in my opinion has nevertheless considerable bearing on the subject of inflation.

2. Anyone who is familiar with the situation must observe that among the important contributary causes of this condition locally is the purchase of extra foods and refreshments by small private officers' messes.

3. There is, of course, no reason why officers should not legitimately contribute small sums for the purchase of non-controlled supplements to their messes, or to buy controlled items at their approved prices.

4. There can, however, be little doubt that the matter has gone beyond this, and that the greater part of many private mess charges is going for thirty cent eggs and other top-priced scarcity foods. The purchase of these items through illegitimate sources not only makes economically difficult the campaign against inflation and the black market, but also impairs the reputation of the Commission for good faith and sincerity.

5. If, sooner or later, a particularly scandalous case should come to light, there is reason to believe that ACC/AMG officers may be found to be among the offenders. If so the consequences, against the background of our official attitude in this matter, could be unpleasant.

6. It is suggested that consideration be given to the publication and enforcement of orders limiting expenditures for "extras" by members of our own messes, and prohibiting on pain of military discipline, the buying at illegal prices of items which Italians are severely punished for selling under similar circumstances.

7. The movement might be later extended, through liaison, to our military neighbors, but the first step indicated would clearly seem to be putting ourselves in the clear.

A.C.B.

ACB/enh

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Col Findley
CR-145127

FOR OF STRATEGIC SERVICES
ALLIED ACCORD IN ITALY
APO 777, U.S. ARMY
R & A BRANCH

13 May 1944

SUBJECT : Economic Situation in Liberated Italy

TO : Mr. William L. LANGER, Director, R. & A Washington

1. Herewith, the economic situation in Liberated Italy prepared by Lt. Richard V. BURKE.

Henry L. ROBERTS
Lieut. U.S.N.R.
Executive officer

Distribution as follows :

(original) 1 copy to Major GENERAL for Langer
1 copy to Major [illegible] for Mr. ROBERTS
1 copy to Major [illegible] for Mr. Bruno Brinton (R. & A London)
1 copy to Lt. N.C. [illegible] for Lt. Col. TAMBURELLI
1 copy to Major [illegible], Information Section, AFHQ
3 copies to files.
7 more copies were made by Info Div., A.C.C., and incorporated in the Central Reference Library, Hq A.C.C.

CONFIDENTIAL

Received 27 May 1944 - L.W. -

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OFFICE OF STRATEGIC SERVICES
ALLIED ARMIES IN ITALY
APO 777, U.S. ARMY
R & A BRANCH

SUBJECT : Food situation in liberated Italy

DATE : 14 May 1944

1. Food rations: The following table gives the rations, calculated on a daily basis, allotted to each individual in the province of Naples as of May, 1944. The table also gives official prices and, for purposes of comparison, the black market prices.

Commodity	Official rations (grams)	Official price (lire/kg)	Black market price (lire)
Bread or flour or bread & pasta	200 160 150- 40	3.60 10	120-160 180-200 250-400
Mixed meat (with or without vegetables).	15.		
Olive oil	06. decaliters	30	250-260
Dried vegetables.	15.	30	
Soap powder	8.	50	
Jam	6.		
Charcoal	2-3	5	16

In region III (Naples, Avellino, Benevento) it was decreed in April that, in addition to these rations, heavy and very heavy workers would receive 75 grams of bread per day, 250 grams of dehydrated soup and 700 grams of pasta per week. Farm laborers were not included in the heavy worker category by the decree. The official rations in other provinces are not significantly higher than those in Naples. An official report, made in March,

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shows that the standard ration for the province of Naples amounted to 613 calories a day, or less than a third of that needed by the body at rest, [illegible] under half the calorific value of the ration issued by the Germans during the last period of occupation.

2. Black market food prices. In order to live, therefore, every family with the means to do so must have recourse to the black market for the larger part of its food supply. Because of the severe restrictions placed on civilian traffic, black market prices for food vary widely from region to region, reaching their highest levels in urban centers. This situation is illustrated in the following table. Prices are in lire per kilo, except where otherwise indicated.

Foodstuff	Rome	Salerno	Northern Italy	Trieste
Bread	120-140		30	
Flour	180-200		35	
Pasta	250-300		40	
Meat	300-350		90	
Fish	150-400	250	30	180-200
Olive oil	230-260	140	90	3-40
Potatoes	40-60		30	
Beans	175-250		40	
Chick peas	150-160		60	
Cauliflower	12-15	8		4-5
Dried figs	90-100	60		25-30
Milk (liter)	30	30		10-12
Milk and eta (Lattolina)	260	75		140
Eggs (each)	15	20	13	14-15
Sugar	220-400			
Salt	15-40			
Wine (liter)	36-50		15	
Buffalo	900-1,500			

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It is calculated that the cost of one black market meal for a family of five living in the Provinces of Naples is about 800 lire.

3. Clothing and housing. The cost of clothing and housing is also exceedingly high. Nearly all clothing stocks were destroyed in the course of military operations. Prices in the Naples area are as follows:

Commodity	Price in lire
Suit	4,000 - 5,000
Shirt	1,000
Man's shoes	1,500
Socks	150

Rents have risen less precipitously; rentals in the Naples area, where there is a housing shortage owing to destruction and requisitioning, are as follows:

Apartment	Rent in lire per month
2 rooms	200-300
4 rooms	400-500 with bath 800
6 rooms	600-700 with bath 1,500

4. The rise in the cost of living: It is calculated that, in comparison with the pre-war period, the cost of living, in black market purchases are taken into account, has risen 500-1,000 per cent, the higher figure applying to urban centers. Rentals have risen only 200 or 300 per cent over pre-war levels, but clothing costs have jumped 1,000 -1,500 per cent since 1942, and index figures based on the black market prices of eight essential foodstuffs, taking 1 January 1943 as 100, reached 132 by 31 August 1943, 490 by 19 February 1944, and 621 by 31 March. In January 1943 these eight prices represented a 355 per cent increase over the official prices.

5. Wages and salaries. Wages, which are adversely affected by widespread unemployment, have undergone only limited increase. Unskilled workers are paid 50 lire a day, skilled laborers 70-80 lire a day, which represents an increase of 100 per cent in relation to pre-war wages.
Unemployed workers entitled to unemployment compensation under Italian law receive benefits at the pre-invasion rates. The newly reformed labor organizations have sought to augment wages but have met with stiff opposition from Italian authorities, who consider that if wages start upward, any chance of stopping the inflationary

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tide will have been lost. The agricultural is better paid than the industrial [illegible] ser., owing partly to a scarcity of workers in some areas. In Leghorn [illegible] Aquila farm workers receive 100-150 lire a day. The base pay of Italian soldiers, sailors, and aviators was increased in March almost five-fold; the basic rate for a private is now 5 instead of 1.05 lire a day. Salaries appear to have shown an even greater inelasticity. The monthly stipends in lire received by the employees of an electric company and a bank are shown below. Those of the electric company include allowances for a family composed of a wife and 3 children.

Type of Worker	Workers' Monthly Salaries	Index #1 (illegible)
Directors	6,000	
Employees, 1st category	3,496	4,45[illegible]
Employees, 2nd category	3,240	2,65[illegible]
Employees, 3rd category	2,529	2,[illegible]79
or	2,103	1,000
Others	700	

In November AMG authorized an increase in the wages of government employees in Sicily on a graduated basis according to 70 per cent on the first 1,000 lire per month, 60 per cent on the second 1,000, 30 per cent on the third, 20 per cent on the fourth, and 10 per cent on the fifth. Private employers were authorized to increase wages on the basis of this formula, and apparently many have done so.

6. Consequences of the disparity between income and the cost of living: The effects of the disparity revealed in the preceding paragraphs vary with the social class involved. In general, the lower and middle classes of the urban centers are most severely affected. The poorest class of the population of Naples is not far from starvation. This situation is somewhat alleviated by the fact that the Allied armies are the largest employers of manual and industrial labor and that their civilian help is generally given some kind of hot meal at noon. The average middle class family is somewhat better off, though their fixed incomes are generally inadequate to satisfy the essential requirements in housing and clothing even if sufficient for food. Of the city population, only the wealthy have a satisfactory diet. On the other hand the rural population, which constitutes 70 per cent of the total, fares much better, as illustrated by the black market prices listed in paragraph 2. The peasantry is always able to hold out to a minimum food supply. In the provinces the chief sufferers are refugees from the north, especially where relief organizations have not functioned well.

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7. ... and the Black Market. The ... level of prices remains ... high. While undergoing a steep rise during the first eight months of 1943, prices have counted with much greater regularity since the Allied occupation. Obviously the basic cause of this situation is the scarcity of consumers' goods. Months of hostilities, declining harvests, the ravages of war, the breakdown of regional interdependence by the separation of southern from northern Italy, and the difficult transportation situation in liberated territory have reduced consumers' goods productionbelow the minimum requirements of the population.

The means at the disposal of AMG for coping with the situation are slender. The most important is the importation of the necessary goods. It is a fact that all the flour, sugar, tea, and canned foods now distributed in Region III, together with all gasoline and coal available in liberated Italy for civilian use, have been imported. Without these imports, collapse would be imminent. At the same time, imports are not sufficient in quantity to arrest the inflationary movement.

In addition to imports, AMG continues its efforts to control prices by police measures. Price ceilings, orders for the affixing of price tags to all articles offered for sale, the placing of signs which overcharge Allied personnel out of bounds, the establishment of special markets for the sale of fish, and the formation of volunteer citizen squads for reporting violations of all these regulations are some of the more important measures which AMG has taken. It is doubtful if they will have effective results so long as the population must have recourse to the black market in order to live. It should be added that the sale of large quantities of goods to black marketeers by American troops, especially negro elements and the corruption prevailing among Italian law enforcement authorities there have some 200,000 forgeries cards in the city of Naples alone - militates against the success of AMG's efforts.

8. Currency. The currency situation has also contributed importantly to the inflationary tendency. The circulation in liberated Italy of notes issued by the Bank of Italy is 300 per cent greater than in the pre-war period and has reached according to an Italian source, a total of 30 billion lire. Superimposed on this is an unknown but very sizeable issue of AM lire, a purely fiat currency. Gold seal dollars and RAF pounds, issued during the first stage of the invasion, are being replaced with AM lire. Less important are American dollars and British pounds which are sought chiefly as a means of investment. AM lire are expended through several channels. Allied personnel are paid in this currency and as of 30 November 1943 had received 8.4 billion lire. The purchasing power of Allied troops is relatively enormous, and is subject to few limitations. Expressed in lire, the pay of an American private is equal to that of a better-paid Italian civil-service employee. It is significant that in Sardinia, where there is no army of occupation, the price level is less than half that prevailing elsewhere in occupied Italy. Another portion of the military expenditure of AM lire is attributed to the hire of local labor. There were also the advances made to commercial and

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provincial governments to get the Italian administrative machine moving once again. Furthermore such expenditures are continuing. Most of the local government units normally had deficits which were financed by the national government, which at present is unable to assume this burden. Tax collections were disturbed to such an extent that it was estimated that in April they were about 50 per cent of normal. The central government itself has a monthly deficit of about 50 per cent of normal. The central government itself has a monthly deficit of about 1 billion lire which is advanced by the Allied Administration. In contrast, the currency receipts of the occupying authorities, from commodities imported for civilian consumption and on the credit of the deposits of Italian banks with AMGOT, are negligible. Some fraction of the huge volume of currency thus put in circulation has been or will be channeled off by the reopening of the banks, the resumption of the payments of interest on the national debt and the issuance of new bonds, the rehabilitation of the taxation system, and efforts at price control. But these measures are only palliatives.

Other factors making for inflation are the formation of new currents of demand with the development of groups especially favored by inflation, the weakening of the attachment to save by the constant decline in the value of money, and the want of reasonable investment opportunities.

9. The dollar value of the lira. There is also the inflationary effect of the exchange rate of 100 lire to the dollar and 400 lire to the pound. There was no free exchange in the lira at the time of the invasion, though the black bourse in Naples was quoting Southern Italian dollars at 130-140 lire. To the country at large the rate of 100 lire to the dollar came as a surprise and shock, resulting, in the popular estimation, the value of the lira by 3/4 and thus undermining confidence in the lira. It is pointed out that if the dollar value of the lira were increased, the occupying AMG forces would still be able to obtain the same goods and services with considerably less inflationistic effect, and that the change effected in North Africa in the official rate of exchange had a salutary effect. The Italian government has in fact maintained that the present exchange rate is the principal cause of inflation and has officially requested that the dollar value of the lira be increased. The request was refused, on the grounds that the Italian government deficit was the true cause of the inflationary movement.

10. Opinions as to the future of the lira. There is a widespread feeling that the lira is already ruined, that still further inflation is inevitable, and that only Allied financial assistance can save Italian currency from collapse. These fears have additional justification in the fact that the Germans have the Italian presses, together with ample stocks of papers and are putting them to full use, so that the territory yet to be occupied may well be flooded with Italian lire.

11. Finance. Financial operations are lethargic. Banking is limited to some activity in current accounts and occasional speculative ventures in the stock market. There is a marked and continuing rise in deposits, owing to industrial stagnation together with the profits of black market activities.

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The stock market is inactive, though in late April and early May the price of st bonds rose somewhat. The black market in gold and foreign curr ncy has achieved some importance, though quotations have dropped since the occupation of Rome because less insecurity and after the arrival of 50 kg. of gold from Sicily. Rates are in lire.

Commodity	1-1-44	15-2-44	21-3-44
Sterling	480	800	500-520
Dollars	138	340	165-175
Gold (the gram	500	820	550

The quantity of gold in private hands in liberated Italy amounts to 5-600 million lire.

12. Railways. German depredations, together with the necessities of the Allied armies, have reduced civilian transportation to an irregular trickle. The retreating Germans blew up bridges, tunnels, substations, and power lines, whereas Allied air attacks badly disorganised the freight yards. The military railway service had repaired all essential military lines by 22 April, except the privately owned railway between Cancello and Benevento and between Avellino and Rocchetta, and except for one break in the west coast line north of Reggio Calabria which it was planned to have repaired by 15 May. Present traffic is almost exclusively military. Rolling stock is in a dilapidated condition and traffic is very heavy. In the first week of February more than 2,500 cars/yd were run over the Apulia railway system, an all time record. Some civilian passenger traffic is permitted, and recently vital civilian freight began to be loaded on military trains. The sub-urban railways serving Naples and vicinity have begun to operate during rush hours.

13. Roads. In this case also the Germans destroyed most of the critical bridges. The Allied forces have put up substitute bridges so that most of the main highways are now open. Much has had to be done in the way of improvement. In Sicily the roads had no maintenance whatever for two or three years before the invasion. As of March, a total of 350-400 kms. of highway in liberated Italy had been improved and 22 contracts having a total value of 42 million lire had been let. A further 11 projects are under consideration in the Army zones.

But the great difficulty is the scarcity of trucks, passenger cars, and draft animals available for civilian use. The Germans removed many vehicles, most of those which remained were requisitioned by the Allied forces, and part of the remainder appeared on the black market in the shape of parts. The government of occupation has made available 55) 2½ - 3 ton trucks to Italian haulage companies, and the 201 General Transport Dep (Italian) is operating, under British control, in the forward areas. In the Province of Palermo the royal government has blocked all trucks capable of carrying 10 quintals or more and placed them at the disposal of the local food section for 10 days of each month.

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it seems doubtful that such measures will materially alter the situation. [illegible] recently truck owners demanded a price of 7-8 lire for quintal a per km., while passengers pay 500-700 lire for a trip of 250-300 km. Early in May Region III had established a list of maximum tariff rates for truck transport.

14. Maritime transport

Coastal shipping was a vital factor in Italian transportation prior to the war. Most vessels were sunk as the result of military operations. Of the remainder, all of 500 tons or more have been requisitioned by the Allied Forces. Some small boats are available, but there is a shortage of sail cloth and fishermen are in need of help. The salvage of sunken ships has been made a responsibility of the Public Works Ministry and work is to be begun on the raising of two salvage craft in Naples harbor.

15. Effects of the transportation situation

Confronting civilian transportation constitute one of the major causes of the inflationary movement. In fact, the economy of liberated Italy has been fragmented into a number of individual regional economies. Localities with a diversified agricultural production find themselves with an accumulation of these products, while in other centers these same commodities command high prices on the black market, prices which cannot constitute an incentive to increased production. Accumulations exist in Puglia for wheat, Apulia for olive oil and wine, Sicily for wine and citrus fruits, Sardinia for milk products, and Lazio for salt. The works at Marchetti di Ostia, near Corletto, have a stock of 150,000 tons of salt, enough to cover the consumption requirements of liberated Italy for a year. The situation is graphically illustrated by the fact that the peasants from the Foggia area carry 20-25 kg. of wheat on their backs to Bologna, 150 km. distant, in order to sell it on the black market there.

16. Communications

As of 20 April, civilian telephone service had been restored to approximately 1/3 of its original capacity. Postal service was officially restored on 20 March. Domestic telegraph service was opened for all of liberated Italy except front line areas on 22 April. During recent weeks the opportunity has been opened to Italians in America or Americans of Italian extraction to send regular remittances to friends and relatives, beginning at the first with Sicily and now for most of liberated Italy.

17. Damage to agriculture

Plan Tings were returned in the areas of greatest military activity by 40 to 60%, while in some areas vineyards and olive groves have been so damaged as to reduce their output by an estimated 20-30 per cent. It is estimated that in Campania 20 per cent of rural buildings have been damaged, and in parts of Sicily and the Abruzzi the percentage is also substantial. In some regions the destruction of irrigation and drainage works has been serious. The crippling of processing plants leaves an outlet for important farm products. The forest resources of the country are being depleted by the requirements of the Allied troops for fuel and timber for bridge and other construction.

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18. Fertil[illegible] deficiencies: There is almost complete dearth of fertilizer, [illegible] as well as organic, and [illegible] insecticides. Such stocks as existed were looted by the [illegible] country during the invasion. Recently fertilizers have been quoted at 3,000- 5,000 lire the quintal, lead arsenate at 2,000, and sulphur at 1,800. The minimum requirements for the [illegible] of Italy alone are 250,000 quintals of superphosphates, 300,000 quintals of ammonia sulphate, 100,000 quintals of nitrate, 40,000 quintals of potassic fertilizers, 9,000 quintals of copper sulphate, and 75,000 quintals of sulphur. In normal times [illegible] industry covered a part of these requirements but these plants, after repair and reconstruction work is completed, will be able to produce only 20-30 % of their output.

19. Seed deficiencies: There is a serious deficiency of selected seeds of all kinds. All seed stocks have been listed and it intends to assist seed farmers in order that they may fit their production program into future world needs. About 30,000 tons of imported seed potatoes were distributed in March. Of this amount it is feared that only [illegible] third to one half were actually used for planting, the remainder reaching the black market.

20. Livestock deficiencies: There has been a notable decline in the number of livestock, both as the result of German depredations and of illicit slaughter for black market sale, est at the beef animals 150-200 lire the kg. on the black market. In some regions the decline is as much as 50 per cent of the pre-occupation stock of cattle, pigs, and horses.

21. Administrative disorganization: The virtual collapse of the normal system has also affected agriculture adversely. The failure of central control, the difficulties of transport, the wide gap between the prices offered by the normal and those available on the black market resulted in the delivery of only a small proportion of output to the normal. In 1943 under Fascism, the proportion of the total crop consigned was 16 per cent in Sicily, 27 per cent in the territory south of Salerno, and 6 per cent in Campania. Recently a series of decrees replaced the normal with a new and simpler system of collection, officially called [illegible] ammasso. The producers will be represented on the advisory committee set up to collaborate with the public officials responsible for the collection of grain and a higher price for grain will be established. It is hoped that the new machinery will be able to collect 45 per cent of the total production.

22. Crop prospects: An estimate, made by an Italian source at the end of March, predicted that the harvests would be 30-50% below normal. In Calabria planting was late and in Apulia, except for Tavoliere where reports are very favourable, the rains made necessary a second planting which could not be effected for want of seed. The head of the Economic Subcommission of the ACC declared at the beginning of May that 100,000 tons of wheat had been brought in each month, and that these imports would have to be continued in May and June, after which the harvest would provide for the needs of the area, during the remainder of the year. In addition to flour, it was intended to import 257,353 tons of other foodstuffs in the first six months of 1944. It should be added that night frosts have occurred in southern Italy and on the west and southern tips of the east coasts of Sardinia.

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fishing in that [illegible] waters has been permitted for some time.

23. Exports: During the month of March exports of agricultural products to the United Kingdom comprised 4,561 tons of citrus fruits and derivates, 1,000 tons of oats, and 47 tons of mustard seed. There were no exports of agricultural products to other countries.

24. War damage to industry: With the exceptions of the establishments along the Adriatic coast and those of Sardinia, the industry of southern Italy has been seriously damaged, partly as the result of aerial attacks, but mainly through systematic destruction by the Germans. Additional equipment has been damaged by the occupying troops, who have removed critical machines and parts to Lombardy under armed circumstances. It is estimated that the capacity of the industry of the Campania area has been reduced by 60 or 70 per cent and that of Calabria to perhaps an even greater extent.

25. Electric power: The condition of the power plants and substations of the country's utilities in Italian hands at the end of February is shown by the following table:

Conditions	Power Stations	Substations
Out of action	2	4
Partially destroyed but operating to a limited extent	3	4
Working at full capacity	1	1
	6	9

Power lines were either again in operation or being repaired. A royal decree of 3 April limited the use of electricity for industrial, public, and private illumination to 50 per cent of the monthly consumption of 1942, forbade the use of electricity for the illumination of signs and for household purposes, except cooking in cases where gas was not available, and limited consumption by tramways and buses for purposes other than illumination to 75 per cent of the monthly consumption in 1942.

26. Difficulties of reactivating industry: The difficulties in the way of any considerable industrial revival are formidable. Many of the factories which are in condition to operate house Allied troops. Many of the machines and parts must be imported from the United States or Britain. In March the AOI, with a view to repair work, made requisitions which required the shipment of 445,000 long tons.

The civil works at Bagnoli and Torre Annunziata have been so badly damaged that the reduction of steel in any quantity during the war appears impossible, though certain subsidiary installations have been put into operation. Coal must be imported, in part to cover the loss of electric power. This loss is due not only to damage to plants in liberated territory, but also to the fact that about 50 per cent of the power requirements of liberated Italy is normally supplied by plants still in German hands. Basic raw materials must also be brought in. Decent protection has been

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begun at Bele , Taranto, Beriette, and Naple in Allied account and with fuel ently supplied by the Allies. plants for the production of fertilizers and commercial anion at Brindisi, Bariletta, and Taranto are virtually shut down for want of raw materials, which have to be imported. Textile factories at Turin, Milan, Genoa, Naples, Arezzo and Capri, are working on Italian stocks which will be exhausted by mid-summer. Heating factories are, producing less for the occupying troops with coal supplied by the Allies. The tanning industry is seriously handicapped by a shortage of heavy leather and of tanning materials. Work in the Carbinian mines which employ some 7,000 workers, has continued, but want of explosives and pit props has resulted in decreased productions. Steel output on the other hand, increased during March by a total of 1,470 tons. The production of binder twine is inadequate to meet the reduced demand.

With industry, as with agricultural, the essential requirement is the execution of a policy of selective rehabilitation. Unless the country is given the means to restore its own production of vital necessities, the imports now necessary to prevent widespread starvation will have to be continued and even increased. Greater emphasis on the importation of capital goods and raw materials would appear to be a pressing Allied interest.

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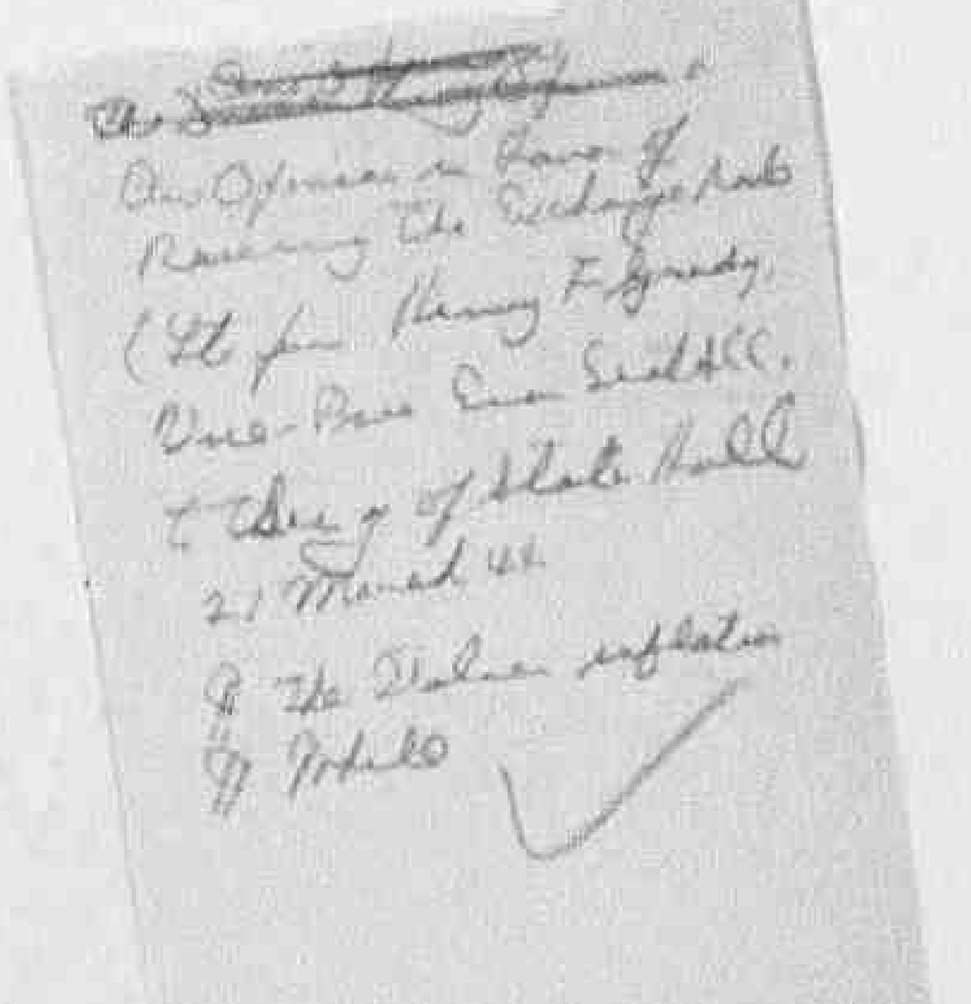

March 21, 1944.

The Honorable

Cordell Hull,

Secretary of State,

My dear Mr. Secretary;

In connection with my return to Washington to discuss with you and other interested officials the economic problems of the Allied Control Commission for Italy, I should like to make special mention of the subject of inflation. The problem of rising prices and their relation to the rate of exchange for the lira, as well as to other factors, is of such nature and importance as to warrant serious consideration.

As you of course know the exchange rate of the lira for liberated Italy has been set by the Allied authorities at 100 lire to the dollar and 400 to the pound sterling. This gives the lira an exchange value of less than one-fifth of that which it had at its former official rate of approximately 19 to the dollar. There has been and continues to be a great deal of controversy over the new rate; many experts and others concerned, including the Italian government and especially its Ministry of Finance, believe that the lire has been substantially under-valued. Those holding this view urge that even now an upward readjustment would be desirable in order to minimize the possibility of a disastrous currency inflation which, if allowed to develop, will not only be detrimental to the Allies but will also provide the enemy with effective propaganda for use in portions of Europe not yet liberated.

In view of the importance of this subject I have asked members of my personnel staff to prepare a memorandum entitled "Inflationary Developments in Liberated Italy". This memorandum presents the available pertinent factual background on the subject, obtained in large part from the Finance Sub-Commission of the Allied Control Commission and from AFA (Allied Financial Agency).

Information and ideas put forward by the Italian government and its responsible officials were considered to the extent they were deemed suitable and useful. My inquiries and the substance of my views have been discussed at length with the Acting Chief Finance Officer of the Allied Control Commission and with his principal assistants.

The economic situation in Italy is characterized by a drastic rise in prices which threatens to develop in a manner reminiscent of the tragic currency depreciations which followed the last war. An increase in the cost of living has been proceeding at a rather moderate rate from the outbreak of the present European war in 1939 until the middle of 1943. Since the Allied landing in Sicily the rate of increase has been greatly accentuated. For instance, the Finance Sub-Commission has procured a study of food prices in Naples which takes

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The economic situation in Italy is characterized by a dramatic rise in prices which threatens to develop in a manner reminiscent of the tragic currency depreciations which followed the last war. An increase in the cost of living has been proceeding at a rather moderate rate from the outbreak of the present European war in 1939 until the middle of 1943. Since the Allied landing in Sicily the rate of increase has been greatly accentuated. For instance, the Finance Sub-Commission has prepared a study of food prices in Naples which takes into account legal prices to the extent of the rations available and "black market" prices for the balance of minimum requirements. This study is the basis of an estimate by the Finance Sub-Commission that the food element in the cost of living in Naples increased at the rate of about 5% per month between June 1942 and June 1943, but that since the latter date it has increased sevenfold. Naples, the largest metropolitan center, has experienced the most severe inflationary price rise but the increase has been considerable, in varying degrees, throughout the liberated territory.

From another point of view it is to be noted that during the months since the first Allied landing in Italy, much of the attention of the economic agencies of the Allied Control Commission and the Allied Military Government has been directed toward resisting price increases. The official price policy formulated at Naples at the end of 1943 and confirmed by Allied Forces Headquarters shortly thereafter, emphasized general resistance to price increase, "holding the line", even when this necessitates substantial government subsidies. The case of imported coal is a striking one, especially in view of Italy's dependence on coal imports. Under German occupation imported coal cost 600 lire per ton; at the end of 1943 the import cost was estimated at between 2500 and 3000 lire per

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ton and the price decision was to sell it at 1200 lire for essential uses. The difference is to be made up by the government, thus augmenting the general Italian government deficit financed by advances of Allied Military Government currency and by the Bank of Italy.

The upward movement of prices undoubtedly arises in substantial measure from shortage of supplies. Many of the 1943 crops in Southern Italy were severely deficient, due to drought, the military campaign, break-down of transportation facilities and other dislocations in the distribution of essential products.

Another important influence is to be found in the substantial budgetary deficits of the Italian government. These deficits, which are related to the partial failure of the tax system and to other fiscal weaknesses, are somewhat smaller in amount that Allied Military expenditures. Being financed in part by issuance of new currency, the budget deficits contribute to the unfortunate and alarming rise of commodity prices.

However, the causes of the upward price movement are associated in substantial measure with military expenditure. To a degree this is unavoidable in a situation such as exists. That part of the pay of Allied troops disbursed in Italy, as well as the employment of local labor (such as dock workers) in the course of military operations, and the purchase of some local supplies, all imply an inflow of additional currency. This inflow is not offset by an increase in local production of civilian goods and services. It is relatively immaterial that many of the expenditures by individual soldiers are for articles of entertainment or enjoyment, such as souvenirs, and not for necessities. The net result in any event is a growing volume of currency in the hands of the population which, in view of the shortage of supplies, must result in an upward pressure on prices.

The Italian inflation viewed in the simplest terms is a matter of too few goods and too much money.

While the situation described is in large measure inescapable, it is aggravated to the extent that an unduly low valuation of the lira in terms of dollars and pounds sterling augments the inflow of additional currency unsupported by additional supplies. It is not possible to compute with exactitude what rate should have been set on the basis of purchasing power parity. The isolated and highly artificial character of the Italian wartime economy made, and makes, the usual calculations of this type impossible. Nevertheless the fixing of the new rate at less than one-fifth of the former official rate was an extremely drastic act, and those who have criticized the decision from the outset feel confirmed in their views by the behaviour of prices during the past eight months.

In view of the commercial isolation of liberated Italy, it would have been wiser, in my opinion, to have chosen a rate more in line with what is really the dominant aspect of the situation, namely, military occupation and military expenditures. This would be preferable even should it require a subsequent revaluation to take account of competitive trade relations and purchasing power parity under peace conditions. To fix an unduly low rate at the outset tends to anticipate and aggravate the danger of an inflationary spiral. Specific reasons

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So far as I have been able to determine, the principal manner in which this undervaluation of the lira directly affects the situation is through the expenditures of Allied troops. The conversion at the present rate of such portion of soldiers' pay as is spent in Italy into lire, results in the injection of excessive money purchasing power into an economy suffering from a scarcity of goods. This follows not only from the amount of lire realized from the conversion of dollars and pounds, but also from the resulting state of mind of the soldiers with respect to the value of the local currency and the consequent stimulation of their propensity to spend.

At the same time there is in the background another extremely ominous set of influences. These are associated with the fact that the low rate has been and

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is interpreted by the highly exchange-minded and inflation-conscious Italian public as reflecting an unfavourable, even calamitous, outlook for the lira. Such a state of mind tends to encourage hoarding, speculation, black market operations, and additional upward pressure on prices. The importance of this factor may be obscured by the absence of broad opportunity for financial activities or for the acquisition of physical assets. Nevertheless a psychology of doubt and misgiving with regard to the currency exists and constitutes a threat of further inflationary developments, perhaps of an explosive nature, when conditions therefor are ripe.

In all the circumstances I believe the weight of evidence is to the effect that the rate fixed for the lira was too low. The significant issues to-day are: (a) whether an how the Italian situation can be regarded and improved; and (b) how other and new situations can be handled to best advantage.

The arguments in favor of readjusting the lira to a higher valuation to-day seem to me rather less clear than the case against the decision originally taken. A considerable period of time has elapsed and conditions have already adjusted themselves somewhat to the rate as fixed. A brusque radiation of the exchange value of dollars and pounds would probably be resented by both American and British troops, and the moment is probably not auspicious for a move of this sort. Furthermore the liberation of additional Italian territory, including the Rome area, will produce new and different financial problems. It may be the part of wisdom to await such developments rather than to risk being led into making a succession of moves which might appear to evidence irresolution and inconsistency.

I have in mind of course that an adjustment was made in the franc exchange rate in North Africa when it was decided that the value originally established was too low. I have been unable to discover any evidence of adverse repercussions resulting from that change. On the other hand it is true that conditions were in certain respects different and that a relatively brief lapse of time occurred between the initial establishment of the rate and its alteration. I am therefore not disposed to press the North African analogy unduly.

Nevertheless the inflationary threat in Italy must be faced squarely if we are to live up to our responsibilities and are to refute successfully the charge that we have learned nothing from past experience. The phenomenon is a complex one made up of many factors. For various reasons we have at this moment an opportunity to attack the entire problem simultaneously on several fronts, through the implementation of measures to check the price spiral.

I have in mind an integrated program consisting of various measures, all directed to the same end. Certain of these measures fall within the power and scope of the Allied Control Commission, and insofar as possible the Commission has already taken or is taking action. Such efforts will be vigorously continued. In other instances, however, the wholehearted cooperation of the Combined Chiefs of Staff will be necessary if anything effective is to be achieved.

1. MILITARY REPRESENTATIONS.

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1. MILITARY EXPENDITURES.

a) As large amounts as possible of goods and services should be made available to the troops through post exchange facilities.

b) It is important to continue the policy, inaugurated in Sicily, of licensing certain establishments catering to army personnel, and of requiring them to operate at controlled prices and under prescribed regulations.

c) All unlicensed establishments should be placed off-limits with suitable penalties for violations.

d) All urban centers, such as Naples, should be placed off-limits to all troops stationed outside such centers, except for the purpose of conducted sight-seeing tours.

e) Troops should be provided with the easiest simplest and most attractive facilities for adding to their savings in small and odd amounts; and the existence of these facilities should be thoroughly publicized.

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f) The same applies to facilities for purchase of war savings bonds, with regard to which I understand the present procedure to be unduly cumbersome.

The above mentioned measures, including those in existence and those which might be introduced by the Combined Chiefs of Staff, would result, I believe, in a material reduction of the personal expenditures of troops. They are presented as possibly constituting collectively, a substitute for an adjustment of the exchange rate. Certain of them will require a genuine appreciation, by the military authorities, of the gravity of the economic-financial problem, and a determined effort on the part of those authorities to reduce the excess money purchasing power emanating from army sources.

2. BLACK MARKETS

a) Much attention has been given to the application of appropriate and effective pressure on the Italian government looking toward the adoption of drastic measures for dealing with black markets in food and other necessities. Further progress with regard to this problem is extremely important, and will depend in part upon the success of other features of the program.

b) In connection with the foregoing the military authorities should enforce with greatest severity the regulations which prohibit diversion of military supplies to civilians.

3. GOVERNMENT FINANCES

a) The entire problem of Italian government finances, and ways and means to cut the deficits both by reduction of expenditures and stimulation of revenues, are being studied by the Finance Sub-Commission of the Allied Control Commission and by the Italian government. This task should be pursued vigorously. A tax program and other fiscal reforms should be included in a general plan for attack on inflation.

4. SUPPLIES

a) Food imports for the civilian population are now scheduled to arrive in substantial quantities. They will help greatly on the supply side of the inflation equation.

b) The new crop season is approaching. While the harvest outlook is not brilliant, largely due to lack of fertilizers, the transportation and distribution of domestic supplies can and will be greatly improved. The Agriculture Sub-Commission is using its best efforts to increase the new crop and to insure its equitable distribution.

The foregoing analysis and suggestions apply directly to the situation [illegible] applicable to other

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The foregoing analysis and suggestions apply directly to the situation in liberated Italy. From them, however, lessons may be drawn applicable to other territories which we expect will come within the scope of Allied government or Allied influence. If one of the consequences of the success of our arms and the liberation of conquered areas is a series of violent currency depreciations, this will be rightly regarded as a poor fulfillment of United Nations promises. Not only should the measures enumerated above be considered in relation to each new situation which develops, but the lesson of the Italian exchange problem should be gravely pondered and plans for the setting of other rates should take into account the consequences of the decision in the case of Italy.

I therefore earnestly recommend that the entire question be reviewed with care by all responsible authorities. The possibility of an adjustment of the Italian rate, even yet, should not be excluded from consideration. If the present moment is inauspicious for such action, it is conceivable that a later opportunity may present itself in connection with further liberation of Italian territory and as part of a coordinated financial-fiscal program. Both material and psychological benefits might thereby accrue, even though the appreciation be of modest extent and intended mainly to allay the public's fear of endless currency debasement.

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Apart from the question of rate, all appropriate measures, including those mentioned above and any others believed useful, should be examined with a view to checking the rise of Italian prices.

In addition I urge consideration of all elements of the problem, and of the past record, in order to avoid or minimize comparable developments in countries and areas yet to be liberated. We surely cannot afford to have an Italian-type inflation everywhere we go.

Very respectfully yours,

HENRY F. GRADY.

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Very respectfully yours,

ISAAC N. CRADY.

257/1/CA BY PAST AIRMAIL

HEADQUARTERS
ALLIED CONTROL COMMISSION
REGION 6

19 May 44

TO: Director, Civil Affairs Branch, H.Q., A.C.C.

SUBJECT: Inflation

REFERENCE: HQ/2118

With reference to your 257/1/CA of 10 May 44, I have the following report to make:-

1. Except for rationed and controlled goods, money is fast losing its purchasing power, but the primary cause of this is not so much lack of confidence in the currency as the complete absence of any consumer or luxury goods - in other words, money over here is forfeiting its position as a medium of exchange largely because there is little for which it may be exchanged.

In support of the above:-

(a) Bank deposits with the Banca d'Italia have increased from 566 millions at 31 December 1943 to 1,163 millions on the 10th May 1944.

(b) Subscriptions to Buoni Tesori have exceeded repayments by 89 millions over the four months to 30th April last, and Postal Savings have increased by 43 millions over the same period. These figures seem to reflect reasonable confidence in the currency but perhaps even more, the inability to use money in the commodity markets and for ordinary commercial purposes.

HEADQUARTERS
22 MAY 1944
A.C.C.

2. Despite the growth of savings indicated above, money in the hands of the Italian public and military has increased by about 1,000 millions during the last 7 months - representing, it is estimated, an increase of 35% in the currency in circulation at the 30th September 1943.

A certain part of this increase may be accounted for by distrust of the banks etc and a desire to keep wealth in as liquid a form as possible; a certain part is occasioned by the fact that people - owing to price increases - have necessarily to keep more ready money with them than before; a certain part is certainly due to the operations of the Black Market and the fear of disclosing profits made; but the major reason is that money is passing into the hands of the purely rural population who never have used the banks and, for many years to come, probably never will. The peasant and small farmer has always hoarded his money and whilst such hoarding may be a nuisance, it is not an inflation danger - such money being probably withdrawn

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complete absence of any consumer or luxury goods - in other words, money over here is forfeiting its position as a medium of exchange largely because there is little for which it may be exchanged.

In support of the above:-

(a) Bank deposits with the Banca d'Italia have increased from 565 millions at 31 December 1943 to 1,153 millions on the 10th May 1944.

(b) Subscriptions to Buoni Tesori have exceeded repayments by 59 millions over the four months to 30th April last, and Postal Savings have increased by 43 millions over the same period. These figures seem to reflect reasonable confidence in the currency but perhaps even more, the inability to use money in the commodity markets and for ordinary commercial purposes.

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3. Another possible cause of inflation at this time is that:

(a) Sardinia has always relied upon outside sources for nearly all of its essential consumer goods.

(b) The depreciated value of the lire was not immediately felt here while a reasonable amount of imported goods were in local dealers' hands.

(c) Now that stocks are at the vanishing point dealers are withholding goods rather than sell them at former prices or else demanding "inflationary" prices in anticipation of replenishing stocks in the world markets on the basis of a depreciated currency.

(d) This is bound to influence general price increases in all directions.

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4. As regards the recognised antidotes or preventatives for inflation:-

(a) Heavy and efficient taxation and rigid Government economy. Decisions on these points must necessarily be taken for the whole of Italy but the position in this Region as to tax collection and Government economy does not appear - judging by Italian standards - to be too ~~good~~ bad.

There is very urgent need for increased taxation at the communal level; existing taxation (particularly the Imposta di Consumo) is quite inadequate to deal with the ever rising communal expenses and there will be very few if any communes in this Region which will be able to make both ends meet for the year 1944.

(b) An adequate supply of consumer goods.

It is difficult to see what can be done about this at the present juncture but from what I have heard of conditions in other Regions, conditions here are considerably worse than elsewhere in Italy.

This is perhaps partly due to the fact that Sardinia has always been rather starved of consumer goods and being a very poor and backward country, did not carry any really substantial stocks. Also, the Island was virtually cut off from the mainland some three months before the Armistice and in that sense is therefore three months worse off than, say, the Naples area. Finally the very large Italian and not inconsiderable German forces formerly on the Island have, of course, contributed to the existing scarcity.

(c) A strong "Savings Campaign".

It is possible that something might be achieved by a really intensive propaganda campaign to encourage savings but, on the whole, I am doubtful if it would have any real effect commensurate with the work and cost involved. There is the further consideration that such a campaign might act as a boomerang and breed distrust of the currency rather than confidence in it.

5. To sum up, I do not think that inflation has reached anything like the same point here as it has in continental Italy or Sicily, and indeed, the main financial worry of the Sards is not as to the extent of the inflation already existing here, but as to what will happen when the Island is once again linked with the rest of Italy, and "bad" money floods in here from outside.

Undoubtedly, prices are much lower here than elsewhere in Italy and unless the link-up of Sardinia with the rest of Italy comes fairly slowly and is kept well under control, the outlook for the Sardinian economy is not too happy a one.

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M. Carr Brigadier

M. CARR,
Brigadier,
Regional Commissioner.

MC/gch

2317

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

ALLIED CONTROL COMMISSION
SICILY REGION HEADQUARTERS

16 MAY 44.

Director of Civil Affairs, A.C.C.
thru Executive Commissioner,
R.C. & M.G. SECTION. (Personal copy for Brig LUSH.)

R.C./M.F./16.

Subject : "I N F L A T I O N".

1. As soon as Proclamation No 3, "Currency & Exchange", was promulgated last JULY following on the landing, there was consternation at the sterling and dollar rates of exchange. A note of dismay was added to the general confusion and uncertainty, and the mild inflationary trend which had started before the invasion gained rapid impetus. This was aided by the unrestrained spending power of the troops who, oftener than not, bought for the mere sake of buying and cheapened the lira under the very noses of the Italian people.

2. The weeks that have followed down to the present time, have witnessed a headlong rush by the naturally astute Sicilian towards a new order of easy money without any care or consideration for the metaphysics of inflation. The few seriously minded economists have looked with increasing dismay at a spectacle they were powerless to stop, whilst their warnings remained unheeded.

3. The worker at a fixed salary is unable to make ends meet and agitates for more and cheaper food or extra pay. The door is opened to graft, bribery and corruption, which seep into almost every grade of society including the forces of law and order. Traders and shopkeepers sell at arbitrary prices far beyond the reach of the average citizen, and the entire commercial cycle is one of unbridled profiteering.

4. Attempts by the authorities to control these conditions meet with spasmodic successes, though the High Commissioner is now bringing a firmer hand to bear on the problem. This may lead to a gradual improvement. However, at the moment it pays the profiteer to run the risk of evasion.

So much for the present state of affairs.

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So much for the present state of affairs.

5. As a first remedy, it is necessary to restore the lost confidence in the lira. If it can be made known officially that the lira will remain pegged indefinitely at its present exchange value to the dollar and pound sterling, confidence will revive, and pave the way for government loans which would absorb capital seeking investment.

6. Secondly, a bold attack on foodstuff, clothing and footwear prices to enable fixed salary workers to provide the minimum in food and clothing for their families is required. Brave measures are needed to achieve this result. Existing stocks of clothing and footwear in SICILY, much of them are still hidden, were bought at 1942 prices, if not before. These are now being sold at ten times and upwards of their original prices, and with fresh imports improbable for some time, it pays to conserve stocks in the almost certain hope of even higher prices. It therefore appears that imports of textiles and leathers at the earliest possible would enable local manufacture of utility clothing and footwear which could be rationed, and would tend to reduce inflation.

HEADQUARTERS
15 AUG 1944
A. C. C.

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

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HEADQUARTERS
16 MAY 1944
A. C. C.

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7. On the other hand, a purchase tax on non-essential goods and commodities, along th lines of the British system, would benefit revenue and curb the spending power of the profiteers. The necessity of restricting the purchasing power of the easy- money makers seems so evident that increased or special taxation appears an effective deterrent.

8. Again, it is urgently necessary to apply restrictive measures to those traders and speculators who, while the price of wheat may be pegged to an un-remunerative levels as far as Sicilian agriculture is concerned, and while property holders' rents are blocked and fixed wage-earners' pay subject to rigid control, operate freely and feed the Black Market to the detriment of others.

9. Over and above all, however, wheat is the foundation of Sicilian economy, and now having established a basic price for wheat, prices of all other cereals and vegetables should be fixed in proportion. Around these prices, a structure of values for all essential commodities and foods, including clothing and footwear, should be made in relation to the fixed earnings of the average worker.

10. In addition, a propaganda campaign " In Defence of the Lira ", and backed by suitable coercive and punitive measures for the control of prices, will be necessary.to complete the efforts to combat inflation.

A.T.Hancock,
Colonel.
REGIONAL COMMISSIONER.

PALERMO.

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

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HEADQUARTERS,
ALLIED CONTROL COMMISSION,
APO 394

Regional Control and Military Government Section.

17th May 1946.

Ref: 207/8/CA.

SUBJECT: Inflation Committee.

TO : Regional Commissioner,
Region VII.

1. I am directed by the Executive Commissioner to inform you that MAJOR J.M. MACDONELL of your Region has been nominated to serve on the special committee set up by the Chief Commissioner to combat inflation.

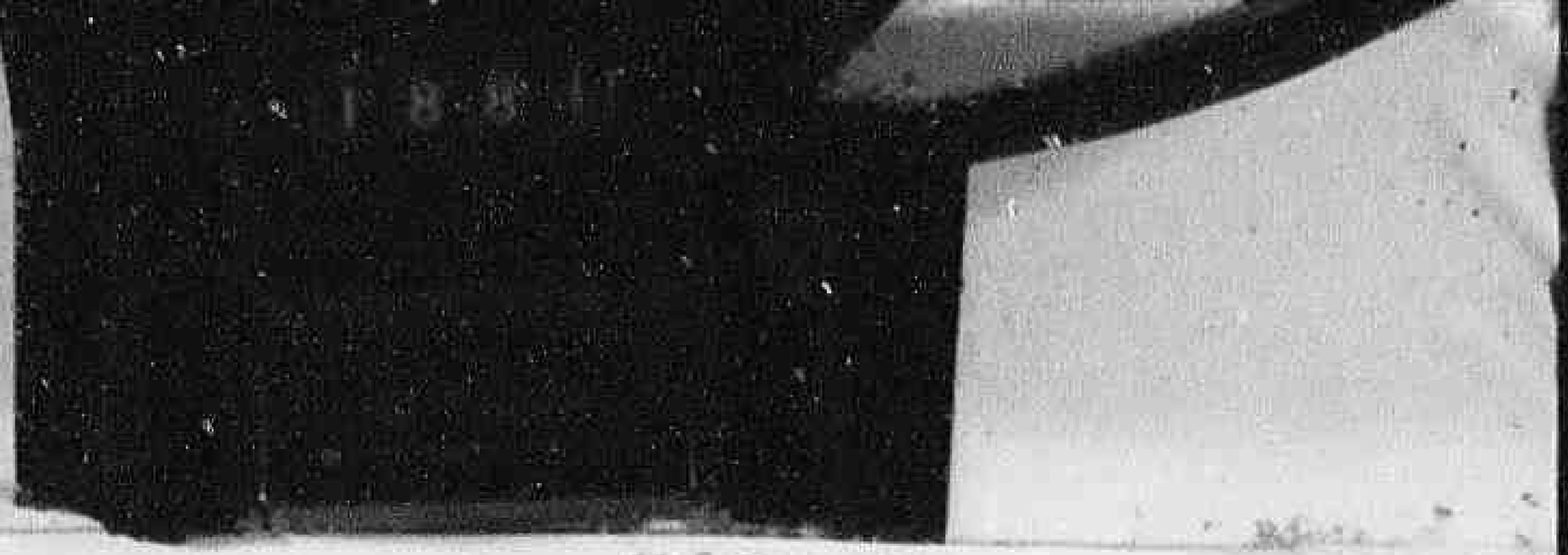
2. Further instructions will be issued to this officer by this Headquarters in due course.

(signed) E.S. MACKENZIE

Captain,
PA to Executive Commissioner.

USM/JCL.

2314



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

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HEADQUARTERS,
ALLIED CONTROL COMMISSION,
APO 394

R.C. & M.G. Section.
++++++++++++++++++++++++++++

16.May.44.

SUBJECT: Inflation Committee.

TO : Secretary General.

This section's nominees for the above Committee are:-

Colonel N. Fiske - Deputy Executive Commissioner.

Major Blackwell - Region VII.

(Sgd) E. S. MORDEN.
Captain,
PA to Executive Commissioner.

ESM/JC.

2313

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R.C. & M.G. SECTION
Civil Affairs Branch

16 May 1944

6

Ref/257/6/CA

MEMORANDUM:

1. The request expressed in item 1, this file has been made to Regional Commissioners, Regions 1 to 7 inclusive--by telephone in every case except that of Region 6.

2. The file is an accumulation for the benefit of the Special Committee on Measures to Combat Inflation, of which Col. Fiske is to be chairman.

3. The replies of individual Regional Commissioners ordinarily require action but will merely be retained for the use of the Committee. However, after reasonable length of time, Regional Commissioners who have not subaitted their reports and recommendations should be requested to do so.

A.C.S.

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

15 MAY R[illegible]57

5

FROM: Region VII.

TO : HQ. A.C.C. FOR LUSH SIGNED KIRKWOOD

Ref No.104 dated 13 April 44 supplementing my message No.101 of 11 April 44. Further recommend that a policy of substantial financial awards for information leading to the arrest and conviction of those engaging Black Market operations, violations of amassing instructions, and other offences involving essential supplies be made, adopted and given wide publicity.

2311

257

CA BR

9581

4

Modello B

Indicazioni eventuali abbreviate

+FALCHI+ORE+0730

MARC15+5/0/01

	Telegramma collazionato (TC)		Da consegnarsi in proprie mani (MP)
	Avviso di ricevimento (CR)		Recapitabile aperto (RC)

Stazione Telegrafica
14MAY1944

Ricevuto il 193
Ricevente

Le ore si contano sul meridiano medio dell'Europa centrale di seguito da una mezzanotte all'altra.

Qualifica

193+NAPOLI+CATANZARO437 0104+7

Ora della presentazione — Ore e minuti

Indicazioni di servizio

WASHDC+++FROM+REGION+SEVEN+++SUPPLEMENTING+MY+MESSAGE+NO+101++OF+11+APRIL

+THAT+A++POLICY++SUBSTANTIAL++FINANCIAL++GUARDS++INFORMATION++LEADING

+TO+THE+ARREST++CONVICTION++OF++THOSE+ENGAGING++BLACK++MARKET++

+OFFENSE++++INVOLVING+ESSENTIAL++SUPPLIES++

+++WIDE++PUBLICITY+

CENTRAL TELEGRAPH OFFICE - WASHINGTON

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

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

TRANSCRIPTION

3/O 55 NPL CATANZARO 34010 30 12 1110 CC NPL
FOR LUSH FROM REGION SEVEN SIGNED KIRK WE
OD REI NO ADA DATED 11 APRIL 44 RECOMMEN-
DATIONS REGARDING ANTI INFLATION MEASURES
LIMITED DUE TO BRIEF EXISTENCE OF REGION
PERIOD RECOMMEND EFFECTIVE AND DRASTIC PRICE
CONTROL AND INCREASE IN ESSENTIAL COMMODITIES
FIRST BY LOCAL PRODUCTION SECOND BY IMPORT
SALI MRI RAL TR MALASPINA 130344 REC RECID
POD RICCI

Econ Sec'

Finance 9397

Indicazioni eventuali abbreviate

Modello B

Indicazioni di urgenza			
	Urgente oppure (D)	Far proseguire oppure (FS)	Stazione Telegrafica
	Telegramma collazionato (TC.)	Da consegnarsi in proprie mani (MP)	
	Avviso di ricevimento (CR)	Recapitabile aperto	

HEADQUARTERS
13 MAY 1944
A.C.C.

Ricevuto il	193	Le ore si contano sul meridiano medio dell'Europa centrale di seguito da una mezzanotte all'altra.
	Ricevente	

+*3/0+55+NPL+CATAN79RR+34010+30+12+1110+-+CC+NPL+-+FOR+ITEM+FROM+REGION+
+SEVEN+SIGNED+-+KIRK WE DD+RE1+ND+ADA+DATED+11+APRIL+44+-RECOMMENDATIONS
+REGARDING+ONT+INFLTION+++RESURS+LIMITD+PRODUCTIO+BRIEF+-+XISSENC+EF+-REGION+
+PERIOD+RELOMMEND+EFFECTIVE+AND+DRASTIC+PRICE+CONTROL+AND+INCREASE+IN+ESSENTIAL
+COMMODITIES+FIRST+-+++-+BY+-LOCAL+PRODUCTION+SECOND+BY+IMPORT+-BAL1+MR1+RAL+

+TR+MALASPINA+0041730344+REC?? +RECID+POD+RICCI+

13 MAY 43

Rec'd 1615
Encoded

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

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1.

HEADQUARTERS
ALLIED CONTROL COMMISSION
N.C. & M.G. SECTION
Civil Affairs Branch
APO 394

PAFT AIR

Ref/257/1/CA.

10 May 1944

TO: Regional Commissioners, Regions 2, 5 & 6.

1. The Chief Commissioner intends very soon to appoint a special committee to investigate and suggest cures for inflation in this area.

2. Brief informal reports, accompanied by comments and suggestions as to treatment of this problem, with stress on special conditions and problems in their respective Regions, are desired as soon as possible from all Regional Commissioners.

3. Please direct reply to Director, Civil Affairs Branch, this headquarters.

Rec'd & dispatched by Air Courier

ALFRED C. HOFFMAN
Lt. Col.
Asst. Director
Civil Affairs Branch.

P/U 10/5

1307