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ACC

10000/109/1784
(VOL. III)

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ACC, MONTHLY REPORT, FEBRUARY
DEC. 1943 – FEB. 1944

CONFIDENTIAL

HEADQUARTERS
ALLIED CONTROL COMMISSION
[redacted]
APO 394

1. This report covers the activities of the Allied Control Commission in Regions I, II, III, V, VI and in the 5th and 8th Army areas during the month of February 1944, which was the first complete month of the united Headquarters under Lieutenant General Mason MacFarlane. As from 15 February, Foggia, the only territory which was being administered by Region IV, was placed in Region V.

POLITICAL

2. Upon the return to Naples of the delegates from the Congress of the six parties of National Liberation, which was held in Bari on January 28 and 29, the Executive Giunta was formed. The Giunta has met several times in Naples, one of its first acts being the dispatch of a communication to the King, which recited the decisions of the Bari Congress and invited him to abdicate forthwith. This communication was made on February 6, but has up to the present elicited no apparent action from the monarch or his Government. Pending further developments in this respect, which are however not anticipated, the Giunta is endeavoring to reach a greater degree of agreement in respect of the points not clarified at Bari. Count Sforza and Senator Croce, with whom the Giunta's terms of reference require it to maintain close association, are likewise attempting to bring about a compromise, which will enable the opposition to present a united program of action to the Badoglio Government and the Allies.

3. Meanwhile, as previously scheduled, the transfer of administration of the southern mainland provinces, Sicily and Sardinia to the Italian Government took place on February 11 and the Badoglio Government with the exception of the Defence Ministries began to operate from its new temporary capital of Salerno. The transfer created very little reaction throughout the territory concerned. Some regret has been expressed that this handing back of territory seemed to show the intention of the Allies to strengthen the Badoglio Government.

4. At Taranto two manifestations of labor disturbances occured during the first week in February which resulted in the removal of the Prefect but did not take the form of the threatened strike among the dock workers. Although the alleged cause had been lack of food and dissatisfaction with working conditions, investigation indicates that the underlying reason was political in order to discredit the government.

5. On 22 February the British Prime Minister made a state-

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Region V.

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5. On 22 February the British Prime Minister made a statement in the House of Commons that the "policy which His Majesty's Government have agreed to provisionally with the Government of the United States was to win the battle of Rome and take a new view when we are there." This statement was received with satisfaction in Royal and Governmental circles, but was taken by the opposition as a negative reply to their proposals. The Party of Action and the Socialist and Communist Parties in Naples decided to call a ten minute strike for eleven a.m. Saturday, 4th March, as a protest, but in order to emphasize that they did not intend any damage to the Allied war effort they called upon workers to do fifteen minute overtime during the luncheon period on the same day. It was made

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clear to the three parties and the union leaders that the Commander-in-Chief would not tolerate any strike under any circumstances in this area. Further announcement was therefore made at the last moment by the three parties and the Confederation of Labor cancelling the strike and announcing, in agreement with Allied authorities, that a public meeting should take place on Sunday, 12th March, in Naples and that a petition should be drawn up to demonstrate the extent of popular support of the opposition. No suspension of work in Naples area occured on 4th March.

6. Two large meetings were held in Palermo on successive Sundays and were attended by some 4000 people on each occasion. The first meeting, which was organized by the Free Sicily movement, favored the separation of Sicily from Italy and was openly hostile to the Monarchy and the Badoglio Government, while the second, sponsored by the Committee of Liberation, emphasized the need for unity as a prerequisite of liberty. Subsequent announcements in the local press by the parties which compose this committee show, however, that party differences are still supreme and self interest stronger than any sentiment for national unity. This self interest is emphasized by the fear among most men of military age that they may be recalled to the army.

7. In Sardinia political activity is increasing. It remains to be seen to what extent the local Concentrazione Anti Fasciste will hold together or how soon there will be a cleavage between parties of the left and center. The feeling for some form of increased autonomy for Sardinia is strong.

8. The Badoglio Government has announced the appointment of Signor Zanitoni as High Commissioner for the purging of Fascism from public life. Zanitoni was elected a Socialist Deputy in 1919, continued in active opposition to Fascism after the advent of Mussolini and was involved in an attempt on his life in 1925. Since that date he has been in prison and only reached the mainland of Italy from the island of Ponza with the arrival of Allied troops. He has expressed his intention of working in the closest possible collaboration with Allied authorities and his determination to carry out his duties with thoroughness and method. On accepting this post, he was expelled from the Socialist Party of Naples which continues to refuse to permit any of its members to collaborate with the Badoglio Government.

PUBLIC SAFETY

9. Public Security during the month can be said to have been "normal" in all Regions. No case of sabotage or subversive activities were reported but there were several cases of violence, including a few of shooting at British and American soldiers. Arrests were made in all cases. In the 5th Army area, Algerian and Moroccan troops have become involved in a considerable number of cases of alleged rape or attempted rape and have used fire-arms to enter houses.

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10. The morale and efficiency of the Carabinieri, Guardia di Finanza and the other police agencies continues on the whole to be good and useful work was accomplished by them in all regions. Examples of their activities are, policing of ports and railways, checking civilian vehicles at road blocks in search of contraband, dealing with the problems of veneral disease, and the prompt dispersal of various minor disturbances, all in connection with the desire for more food. A decision by AFHQ that the Carabinieri and the Guardia di Finanza are to be classified, in so far as rations, uniforms and equipment are concerned, as parts of the

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Italian Armed Forces, should have a very good effect on morale.

11. Extracts from civilian mails collected by the censors have proved a useful means of assessing public morale in various parts of the country. Allegations of black market activities by named individuals have proved of value.

12. The prison situation remains satisfactory. In Sardinia there is considerable congestion and steps to relieve it are being taken (see paragraph 19 of this report).

13. The publication of General Order No. 20 which relates to the issue of motor vehicles and petroleum permits was delayed pending discussions with the Italian Government in regard to their issuing a similar order in their territory.

ALLIED COURTS

14. Allied Courts continued to function satisfactorily during February. Totals of cases disposed of were much the same as the previous month, namely, around 300 for the army areas and around 600 for the other regions. An exception was Region III in which no less than 4207 cases were tried in Allied Courts, of which 3840 resulted in convictions. This large number is due mainly to curfew and petty theft cases in the City of Naples. In all regions the large proportion of the cases dealt with were for very minor offences.

15. Among the more important cases tried were those of the leader of a gang of mail robbers in Bari, of a man charged with murdering an Allied soldier in Catanzaro and 73 persons in Reggio for taking part in disturbances. The mail robber was sentenced to death for interference with Allied mail. Those convicted of disturbing the peace in Reggio received sentences ranging from three months to ten years. 336 grain cases were tried in Matera Province. Four cases of wire cutting were dealt with in Sicily and in the 5th Army area a man was charged with espionage before a General Military Court but was acquitted.

ITALIAN COURTS

16. During the month H. E. Guiseppe de Santis, who had been acting for some months as Minister of Justice, was replaced by H. E. Ettore Casati. The Ministry of Justice was at all times cooperative and the transaction of business between it and the Legal Subcommission was smooth and expeditious.

17. The Italian Corti-d'Appelo at Avellino and Benevento have been reopened. Two officers, specialists in Italian law, were loaned to Region III to aid the Regional Legal Officer and his Italian Court Officer in bringing about the more efficient [illegible] courts and securing space for the

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18. In Region II the Italian Courts are functioning satisfactorily except in Apulia where little or no progress was being made before February 11th in the trial and punishment of civilian offenders against the Allied Forces, many of whom had committed serious crimes. Constructive steps are being taken to remedy this situation.

19. The crowded state of the jails is a disturbing feature of the present situation in Sardinia. Of the 500 inmates of Cagliari jail only 8 have received legal trial. The situation is

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rendered difficult by the dispersion of the judiciary in a number of small villages and the lack of suitable accommodations in Cagliari. At the beginning of March an officer with wide knowledge of Italian law proceeded to Sardinia to help clear up the situation with regard to Italian courts in that island.

20. In Region V the Court of Assize opened at Lucera on 19 February and disposed of 5 cases. The tribunali of both Foggia and Lucera have been in constant session throughout the month, and arrangements have been made for the Court of Appeal to open in Lucera on April 1st.

21. In other areas no special problems have arisen during the month and Italian Courts have functioned with reasonable efficiency, if somewhat slowly. The policy of handing over to these Courts all possible cases except where military interests are directly involved is being developed.

ECONOMICS, RESOURCES AND SUPPLY

Food

22. The food situation improved during the month in all Regions. On February 7th the bread ration was increased to 200 grams per capita per day and in some regions a limited amount of pasta was made available. In other areas the 200 grams was distributed in the form of 150 grams of bread and the balance in flour, in order that the people could make pasta. The increased ration of bread, although less than normal, is nevertheless a sufficient subsistence ration and has been generally welcomed. Supplementary meals are available for heavy workers in some industries.

23. The arrival of a considerable quantity of sugar at Reggio made possible a general distribution throughout Region II on the basis of 200 grams per head per month. This distribution, the first for many months, has given great satisfaction. In this Region the milk situation, both tinned and fresh, has improved. In most areas soup, peas and beans were received in sufficient quantities to allow of a limited distribution. Dehydrated soup is, however, proving an unsatisfactory issue, since this food is not understood by the people and they do not want to accept it. Instructions as to its use in English and Italian are being prepared for general distribution. Considerable difficulty in distribution was experienced during the month due to heavy snowfalls in the mountain districts, preventing movement of transport, particularly in Compobasso Province. No commune, however, lacked basic rations for more than a day or two even in this province.

24. Supply officers in all Regions are trying to keep control of the constant tendency towards further inflation. Unfortunately, they receive very little real help from Italian

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24. Supply officers in all Regions are trying to keep control of the constant tendency towards further inflation. Unfortunately, they receive very little real help from Italian officials, even in the areas handed back to the Italians, though promises and fair words are plentiful. Possibly this is due to the natural inertia of most Italian officials, or it may be that they take a realistic view of the fact that the only "work" a very large proportion of southern Italians have to do is the planning of black market operations, a vocation in which most have had considerable experience in the years since the Italian "self sufficiency drive" was initiated. The black market plays a very important part in the life of Italy, and evidence is constantly accumulating that the Consorzii play a very important part in the black market. It is to be hoped that the new Minister of Agriculture can be persuaded to do something about this.

25. From Sardinia came reports of a notable increase in the number of ration card holders. Part of them are due to the fact that farmers, having been allowed to keep a portion of their crop for their own needs sold part of this in the black market. Having sown for the next season they are now coming to the end of their store bins and are asking for Allied flour. This situation is being fully investigated. The island is almost entirely without olive oil.

Export Trade

26. Total shipments to U.K. up to end February include:

Lemons	377,000	boxes approx. 15,000 tons
Lemon Juice	28,000	imperial gallons
Lemon Oil	100,000	lbs
Bitter Oranges	30,000	boxes
Sweet Orange Oil	1,600	lbs
Bitter Orange Oil	6,300	lbs
Tangerine Oil	750	lbs
Bergamot Oil	25	tons
Citric Acid	300	tons
Argols	110	tons
Filberts	570	tons
Almonds (all kinds)	1,100	tons
Mustard Seed	49	tons
Sumac	400	tons
Pumice Stone	110	tons
Sulphur	45	tons

27. Two filatures in Reggio and Cosenza started production. Allocations of last season's caccons were made to them and at the end of the month about a ton of spun silk was ready for shipment.

Mining and Fuel

28. In accordance with instructions from AFHQ, production of coal from the Sardinia mines was limited to 25,000 metric tons for the month of February. These mines are in fact in a position at the present time to produce well over 2,000 metric tons of coal per day, provided adequate timber and other supplies are available. The total number of workers employed at the mines is 5,584.

29. Arrangements have been completed for exporting 2,623 metric tons of lead metal from Sardinia to North Africa and future production is to be stockpiled in Sardinia pending allocation.

30. A comprehensive study has been made of barite deposits and stocks in Sardinia. An existing stockpile of 1200 metric tons with not less than 92% barium sulphate content is available

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Filberts	570	tons
Almonds (all kinds)	1,100	tons
Mustard Seed	49	tons
Sumac	400	tons
Pumice Stone	110	tons
Sulphur	45	tons

27. Two filatures in Reggio and Cosenza started production. Allocations of last season's cocoons were made to them and at the end of the month about a ton of spun silk was ready for shipment.

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30. A comprehensive study has been made of barite deposits and stocks in Sardinia. An existing stockpile of 1200 metric tons with not less than 92% barium sulphate content is available at mine near the port of Sant'Antiocco. Investigation indicates that production of barite from Sardinia could be made with an average of 1,000 metric tons per month during the first three months and an output of over 3000 tons per month at the end of one year's operation. Most of the heavy equipment required is available in Sardinia.

31. A general inspection of Sicilian sulphur mines has been made, together with an investigation of processing equipment for the preparation of refined ground sulphur. There are facilities in Sicily at the present time for producing 700 metric tons of

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flowers of sulphur and 1,500 metric tons of ground sulphur per month. An allotment of 4,000 tons of raw sulphur has been made for dusting purposes, and will be processed in the Sicilian plants. An inspection of sulphur mines on the Italian mainland is in progress. If conditions warrant reopening, supplies will be requisitioned for these mines and production started.

32. Fuel and petroleum products requirements for essential services for the whole of liberated Italy for 12 months were estimated for submission to Washington and London. As from the beginning of the month the entire responsibility for the distribution of petroleum products was handed over to C.I.P. and the Industry and Commerce Subcommission now has the duty of full coordination between ACC (and, through them, the Italian Government) and Headquarters, AAI (Adm. Sch.), Petroleum Section. Arrangements for handing over to the Italian Government the licensing of motor vehicles and the rationing of petroleum products were well advanced and were expected to be successfully concluded early in March.

Development of Industry

33. The program of surveying and reporting on industries and individual establishments, with a view to their rehabilitation where deemed necessary, was continued and the collection of information on the availability of commodities was extended to cover fresh ground.

34. Industrial surveys were carried out during the month on the Industriale Meridionale Exeto a Derivati, Naples; the Ilva Steel Works, Bagnoli; the Ansaldo Works, Bagnoli; and the Sulurificie Plant, Baia. All these had been heavily damaged by enemy demolitions and are incapable of rehabilitation except under a long term policy. Considerable quantities, however, of valuable raw materials, special alloy steels, non-ferous metals and machine tools escaped destruction and reports have been made on these, with recommendations as to their recovery and utilization.

35. Soap production possibilities were investigated and recommendations on the auxiliary industries of carbon bisulphide for olive oil extraction and glycerine recovery from soap manufacturing plants were made. Requisitions have been made for caustic soda for restarting the industry to an extent sufficient to meet minimum essential civilian needs.

36. The Hemp Industry has commenced production and is already supplying cordage and cloth to various services. Manufactured materials actually delivered up to end of February are:

Rope & Twine .....1605.93 quintals
Fabrics .....109119 metres

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Rope & Twine	1605.93 quintals
Fabrics	109119 metres
Sacks	20000

In order to deal with future shipments of hemp, it has been necessary to requisition a warehouse in Naples. Arrangements are in hand for shipping 500 tons to U.K.

37. Deficiencies in clothing and footwear amongst the civilian population continue acute and arrangements are therefore being made for the repair and dyeing of salvage American and British uniforms for issue, after treatment, to civilians. Repair facilities are adequate, but dyeing capacity is limited and all dyestuffs will have to be imported.

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AGRICULTURE, FORESTRY & FISHERIES

38. During the month the work was continued of replacing the top-heavy and cumbersome group of corporate organizations in Agriculture which grew up under the Fascist system, with a simplified organization, running down from the Minister through the Compartments, Provinces and the Communes. When this work is completed it will bring all agricultural, forestry and fisheries control under the absolute authority of the Ministry of Agriculture.

39. Estimates were secured of the probable production of all the principal crops this year.

40. One thousand tons of Canadian Spring Wheat have been released for planting from supplies brought in for consumption. This seed is being used to plant land which might otherwise be idle.

41. Late in 1943 arrangements were made to ship about 40,000 tons of seed potatoes into southern Italy, Sicily and Sardinia for planting. This seed has arrived in large quantities and during February distribution was made and planting begun.

42. Timber cutting by 5th and 8th Army representatives in Calabria was reviewed. Neither army has so far cut much standing timber in this area; both have confined operations to the sawing of large stockpiles of logs, produced by the Italians previous to occupation and the work seems to have been carried out according to good forest practice. There is no doubt that the Italians themselves have cut the private lands very heavily.

43. A plan to meet 5th Army's requirements of fuelwood was initiated during the month in cooperation with the Peninsular Base Section Quartermaster Corps. The Army has agreed to refer all proposed contracts for fuelwood to the Allied Control Commission and to bring prices paid by the Army more in line with present market conditions.

44. An area containing suitable timber for fuel was located between Mignano and Cassino and a contract was signed by PBS with a civilian contractor for 3000 tons of wood, at a price of 700 lire per ton delivered to a motor road usable by 5th Army trucks.

45. Cutting is now in progress and is being supervised by the local representative of the Royal Forest Corps.

46. Considerable progress was made during the month in regard to fishing in the bay of Naples and to the marketing of fish in the city. Night fishing is, however, still prohibited except around Sicily and in certain areas around Sardinia. New regula-

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PUBLIC WORKS AND UTILITIES

47. Considerable advance was made in planning the road and bridge program in southern Italy (about 3000 km) and similar works in occupied territory. A revolving fund of six hundred million lire has been agreed upon to be earmarked for military roads and utilities.

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48. Various applications were made to increase charges to consumers. Three of these were from Water Companies operating near Naples. Applications were also received from Gas Companies and from seven electrical undertakings. These are under examination. On the 11 February 1944 the heads of the principal utility companies met the Director of the Public Works and Utilities Subcommission for a general discussion on charges and rationing. At this meeting it was disclosed, somewhat surprisingly, that considerable capital sums are invested in some of these companies by the nationals of Switzerland, Belgium and France. The Naples Gas Company and the Soc. Merid. Elettrica, for example, are controlled from a head office in Geneva; the Vesuviana Water Company has its main office in Liege, Belgium.

49. A special investigation was made of existing conditions at the large Naples Gas Works, which were subject to extensive and most destructive bomb damage. Production has now reached about 35% of normal, giving a supply of gas to many areas of the city and efforts are being made to increase this still further.

50. The repair of transmission lines which will be used to transmit electric power to Rome was undertaken.

51. Good progress continues to be made in Sardinia in the clearance of Cagliari City. It is estimated that about 55,000 people now live in the city as compared with a normal population of 110,000 and a population of about 5,000 in mid-December.

LABOR

52. In Sicily the General Electric Company's employees at Agrigento and Palermo made demands for increased wages but there was no trouble and no strike.

53. The labor unrest at Taranto is referred to in paragraph four of this report. When the Apulian provinces became part of Region II it was found that no Provincial Labor Offices had been set up in them. This matter is being dealt with. There is practically no unemployment in Region II owing to its largely agricultural character.

54. Provincial Labor Offices are now functioning in Naples, Avellino and Benevento Provinces and employment exchanges in Region III now number over 100 and have met all the demands of the Armed Forces during the month. There are about 20,000 male and female workers unemployed in Naples at the present time. In this Region some labor unrest and disturbances were experienced due almost entirely to demands for more food and increased wages to buy food in the black market, but in spite of this it may be said that labor has responded in an admirable way to the suggestions, requests and guidance of AGC and to the calls of the Armed Forces for workers.

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are controlled from a head office in Geneva; the Vesuviana Water Company has its main office in Liege, Belgium.

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FINANCE

Prices and the Cost of Living

55. In Naples the effect of the increase in the bread ration to 200 grams was to reduce the weekly expenditure necessary for the purchase of 2 kilos of bread nearly 50%. Increases in the prices of other foods have partially offset this gain, but the cost of purchasing the representative food budget for one person for one week declined to about 320 lire for the week ending

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15 February. Comparable figures for other recent datas are as follows:

Month of January	-	348
Week ending 30 January	-	391
Week ending 7 February	-	369
Week ending 15 February	-	319
Week ending 23 February	-	334
Week ending 29 February	-	342

The price of black market bread in Naples rose sharply during January and the first week of February, reaching 135 lire per kilo. After the increase in the ration the price fell to 120 lire on 15 February and rose again to 130 lire, the current price.

56. An increase of 12% in living quarter rentals and 15% in other rentals has been proposed by the Italian Government. The Finance Subcommission recommended that the increase should not be granted. While it is true that rents are very low in comparison with other prices, it was believed that the hardship that would be imposed upon hard-pressed urban workers by a rent increase would not justify an increased income to the owners of urban real estate who are for the most part wealthy and who are holding real estate more as a hedge against inflation than as a source of current income.

Allied Financial Agency

57. On 7 February 1944 the U.S. Treasury and War Department announced the restoration of facilities for living expenses remittances to Sicily, and the Treasury Department issued General License No. 32A to implement the decision.

58. A procedure in regard to advances to British, American and other Allied Nationals was embodied in a draft Executive Memorandum which, however, has not yet been finally approved. In the meantime the various Regional Finance Commissioners are making advances in cases where they are satisfied that the applicants are nationals and that the funds are required to cover minimum essential needs.

Financial Institutions

59. To implement AFHQ Administrative Memorandum No. 95, a comprehensive program was developed whereby the Italian Government is to pay for all goods and services furnished to the Allied Armed Forces.

60. The Minister of Finance was informed that ACC was prepared to terminate restrictions on real property transactions

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60. The Minister of Finance was informed that ACC was prepared to terminate restrictions on real property transactions provided details of the number of transactions are presented at regular intervals. The Minister of Finance agreed to do this and a general order will be published in ACC territory lifting the prohibition.

61. A Committee of insurance interests is being formed in Naples to act as a responsible and representative body with which the Finance Subcommission can deal and through which instructions can be transmitted to insurance companies.

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62. Considerable attention has been devoted to bringing the Naples offices of insurance companies into control of their organizations in liberated Italy, as it was known that the most important companies had empowered their Naples offices to assume this control in the event of severed communications with their head offices, and had provided them with funds for the purpose.

63. Employment of large numbers of civilians by Allied Armed Forces, including ACC, has raised certain problems relative to their status under Italian social insurance laws. Employers contracting with our armed forces should be subject to the same obligations relative to social insurance of their employees, as are other private employers. The Italian Government has now adopted a plan for covering all necessary social insurances for civilian employees of the Allied armies, for 20% of payroll (plus a fraction of one per cent for expenses). The application of this plan has met with certain objections which are, however, likely to be overcome in the near future.

64. The report on proposed state pension increases, estimated that additional payments of from L. 25,000,000 to L.26,000,000 will probably be required monthly in the twenty-six provinces completely liberated when the estimate was made. Pressure for a similar adjustment of private pensions must be expected.

Italian Government Finance - Expenditures and Revenues

65. At the present time there is little Italian Government budgetary control over expenditures. The Italian budget was made in Rome and included expenditures for all of Italy. To meet this difficulty the Minister of Finance has required that "accredimenti" be signed by the Minister of Finance. This device, however, provides little control, for accredimenti have no time period and expenditures in any period may be greater or smaller than the amount of accredimenti issued in that period. Indeed, many Ministries are still using accredimenti issued by the Fascist Government. Through the use of accredimenti the Government is not able either to control the expenditures of the Ministries or to know what their expenditures are. Finally, no adequate figures of disbursements can be obtained even after the disbursements have been made, since reports of large amounts of Civil government disbursements are grouped under the heading "pagamenti collettivi", rather than under the Ministry for whose account the disbursements were made.

66. Figures submitted by the Banca d'Italia on cash disbursements by the Civil Ministries in Puglia are very incomplete. They total only 30 million lire for December and 40 million lire for January. The great incompleteness of these data is shown below, where they are compared with the Finance Minister's estimates of expenditures.

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Comparison of Estimates for Civil Ministries
Made by Minister of Finance with Disbursements
Recorded by the Banca d'Italia (Public)

(millions of lire)

Ministry	Dec. 1943 Estimates	Dec. 1943 Disbursements	Jan. 1944 Estimates	Jan. 1944 Disbursements
Finance	93.0	24.0	20.0	29.8
Justice	2.5	1.6	5.0	3.4
Foreign Affairs	1.0	-	1.0	-
Italian Africa	-	-	-	-
Education	7.0	2.2	15.0	3.9
Interior	100.0	1.0	55.0	1.4
Public Works	5.0	.5	6.0	.5
Communications	165.0	-	190.0	.3
Agriculture	1.0	.3	3.0	.4
Industry & Commerce	1.0	.1	.5	.1
Popular Culture	1.0	-	-	-
Foreign Exchange	-	-	-	-
Total Civilian Ministries	376.5	29.7	293.5	39.8

In addition to these disbursements, the Italian Government makes large disbursements grouped under the heading "pagamenti collettivi". These disbursements totalled 490 million lire in December 1943 and 514 million lire in January 1944. Thus to the total known Ministerial expenditures of 40 million lire would have to be added an unknown part of indifferentiated expenditures totalling 514 million lire if true monthly cash disbursement figures for January were to be obtained.

67. It is sometimes thought that ACC can control Italian Government expenditures through its ability to provide or refuse AM lire to the Government. The experience in February, when no currency advances were made, clearly demonstrates that this is not the case. Specific control cannot be achieved because there is no direct relation between any particular expenditure and the advance of currency to the government. General control cannot be achieved because total government expenditures are only one of the factors which affect the cash position of the Banca d'Italia and, therefore, the necessity for making currency advances. With effective control of the money market and with popular confidence in the government, the return flow of currency to the Banca d' Italia through government revenues, sale of government securities and growth of bankers' deposits at the Banca d'Italia should normally be enough to take care of the currency needs of the government. The provision by ACC of currency to fill the gap in the currency circuit is quite a different problem from that of expenditure control. Effective expenditure control must,

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Foreign Affairs	1.0	-	1.0	-
Italian Africa	-	-	-	-
Education	7.0	2.2	13.0	3.9
Interior	100.0	1.0	55.0	1.4
Public Works	5.0	.5	6.0	.5
Communications	165.0	-	190.0	.3
Agriculture	1.0	.3	3.0	.4
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68. The unreliable state of communications between the provincial capitals in Sicily and the Italian Government in Salerno make it obviously impossible to restore expenditure control to the peacetime pattern of centralization. The shortage of qualified Italian personnel make it desirable for ACC officers to continue for the time being some of their functions and to assist such Italian personnel as can be assigned to Sicily. The present political situation in Sicily makes it necessary that any regional expenditure office be established in such a way as to avoid an

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appearance of autonomy. With these three points in mind a plan for expenditure control in Sicily was developed and presented to the Italian Government. For that portion of the mainland now under the Italian Government no instructions have been issued, but agreement has been reached that this area will be administered from 1 April under the procedure now in effect for Puglia.

69. A copy of the full report of the Finance Subcommission is attached as Appendix "A".

COMMUNICATIONS

70. Authority was obtained for the Italian Government to transmit official messages to Palermo (Sicily), and Cagliari (Sardinia) via the military operated submarine cables from Naples.

71. On 16th February an International letter and postcard service was started, linking up Sicily, Sardinia and the provinces of Italy with all Allied countries abroad other than those occupied by the enemy.

72. The registration of schooners within the whole area of occupied Italy, Sicily and Sardinia, as requested by the C.-in-C., Mediterranean, has continued; 56 vessels of some 6,400 deadweight tons having been added to the list.

73. The difficult and complicated questions of crews wages and bonuses as well as insurance of Italian vessels employed inside the Mediterranean area were studied and are in a fair way to solution.

74. During the month a further advance of 5 million lire was made through the Deputy Ministry of War Transport Representative, Mediterranean, to the Comitato Italiano Sestione Navi to enable the Italian Government to meet running expenses such as crew wages, stores, etc., of vessels requisitioned by them and placed at the disposal of the Allied C.-in-C.

75. Some progress was made in the salvage of ships in Sicily. The "Modena" and her cargo of coal has been completely salvaged and salvage of "Giacoma Costa" is well under way and the removal of 5000 tons of coal from her is expected shortly.

76. The successful operation of the weekly "bidding" system for the coordination of ACC railway and shipping movements with those of operational forces was continued.

77. All civilian railway traffic was suspended in Western Sicily on 11 February because of a coal shortage precipitated largely by the unexpected use of coal alloted for civilian traffic for movement of military traffic in December, and failure to recoup [illegible] allocation so used. Three workers' trains [illegible] out of

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78. By the end of the month the Regions (except Region I) had not completed their arrangements for the reception of the 800 M.T. trucks which are being made available, though considerable progress was made.

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79. As regards 1001 G.T. Coy (120 trucks organized on an Italian military basis), it was most disappointing to find this Company was not in a fit state to work when due to be handed over to Region II. The 21st and 22nd QM Truck Coys (Italian) (80 trucks) are now being operated by Region III.

PUBLIC HEALTH

80. The general health of the population is surprisingly good considering the high cost of living, the shortage of food and the very poor living conditions in some of the badly devastated villages in the forward areas. There have been few epidemics with small numbers of people involved in widely scattered districts.

81. Typhus in Naples no longer represents a serious danger and the situation is well under control. The Italian Director of Putlic Health has been approached with the request to nominate teams of Italian workers in all Provinces. These teams are to be trained in dusting and will constitute flying squads to deal with a typhus emergency in their territories. In this way it is hoped to educate the Italians to a realization of their own responsibilities in combating this disease and also in time to relieve the strain put upon Allied personnel.

82. Venereal disease still presents a very formidable problem, especially in Naples, and the control of prostitutes under Italian law is a matter of the utmost difficulty. Special hospitals are to be established in all regions for the treatment of women infected with this disease. These hospitals will be staffed by Italian doctors.

83. Large quantities of clothing have been received and distributed in Regions I, II, III, and V in cooperation with the American Red Cross.

EDUCATION

84. The second of the new text-books has been published in Palermo and two others are nearly ready for distribution. The text-book program in Naples has involved a long search for materials, most of which have now been found and work is proceeding rapidly in three printing houses. One book is just going to press; the other nine are in various stages of composition and all are scheduled for publication during March.

85. The courses of study and instructions to teachers prepared in Sicily have been reprinted for all other parts of liberated Italy. In addition, part 2 of the elementary program [illegible] and a new edition published. A

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86. A youth committee has been established in Naples to consider the problems of recreational and constructive activities for youth outside of school hours. This Committee is for the most part composed of able, intelligent and interested civilians (mostly teachers, professors, etc.). The church has been invited to appoint representatives to serve on subcommittees. For providing Allied help and advice there is an advisory council composed of the Region III Education Officer, the Region III Welfare Officer

and an unofficial representative of the American Red Cross, who is a specialist in recreation and a representative of the Education Subcommission. A full time civilian Executive Secretary has been employed for the work of the youth committee which is operating entirely in the Naples area as a proving ground.

87. The surrender of Fascist books in all Regions is proceeding with the full cooperation of Italian officials, as is also the removal of teachers with a Fascist background. The number removed is now about 200.

88. On the mainland the public schools throughout Campania and 45 private schools have now been opened. About 50% of elementary school class rooms in Naples are still requisitioned for military purposes and 25% of the secondary schools. In normal times there were about 390 schools in Naples Province and at present there are 225 schools in session, many of them in temporary quarters.

89. The rebuilding and repairing of the damage to Universities in Sicily is now in progress. Sums of 8 million lire to Messina and 2 million lire to Catania University have been earmarked for urgent repairs. The principal buildings of Naples University and the library of the Royal Society of Naples which was housed in the University were deliberatly destroyed by the Germans.

PROPERTY CONTROL.

90. Following the transfer of territory to the Italian Government on February 11 the Director of Property Control continues to be responsible for the custody of United Nations (including French) property, but all property belonging to the Italian Government or Italian Nationals which has been taken into custody in the area restored, is now handed back to the Italian authorities.

91. Only a few British and American properties now remain to be taken into custody except in the Province of Messina in Region I where about 100 cases have still to be dealt with. For the most part these are small houses or plots of land belonging to persons born in Italy but resident in America.

92. A decree has been issued by the Prefect of Catania in Sicily revoking the decrees of sequestration and expropriation of the Bronte Estate and restoring it to its owner, Viscount Bridport.

MONUMENTS & FINE ARTS

93. A further case of the requisition of a monumental

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MONUMENTS & FINE ARTS

93. A further case of the requisition of a monumental building was reported, this time from Sicily, where the Palazzo Reale at Palermo was requisitioned on 4 February without any advice to the Regional Commissioner. The Palace itself is not in the Zone Handbook lists of monuments, only the Cappella Palatina being mentioned. Protest was made to the military authority but it was without effect. Shortly after the requisition, the quarters occupied by the military were considerably damaged by fire; fortunately the Cappella Palatina was not effected, though at one time the priceless wooden ceiling was in considerable danger. It is estimated that the cost of repair of damage will be over 1 million lire.

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94. In the Palazzo Sclafani in Palermo the removal of the "Triumph of Death" Fresco is progressing and in the same town it is reported that the temporary quarters of the National Library will open in March.

95. In Naples, repairs to churches and other monuments are proceeding. The damage done to the Palazzo Reale by Allied troops is still subject to investigation at the time of writing this report.

96. Worldwide interest was aroused by the bombing of Monte Cassino and plans are ready for AMG officers to enter the monastery as soon as it is captured to inspect the damage caused by the bombardment and check up on the available evidence of German occupation. The Corps SCAO concerned is maintaining close touch with security branches in order to obtain all possible information from individuals who from time to time make their way across from the enemy lines. So far no fully convincing stories have come to light.

PRESS & PUBLIC RELATIONS

97. In Sicily the daily papers controlled by P.W.B., "Sicilia Liberata" and "Corriere di Sicilia" continued to provide a source of news to the Italian population, as did "Risorgimento" in Region III.

98. The growing shortage of newsprint seriously affected the control and publication of newspapers. Paper stocks on the open market in Bari were exhausted, but black market stocks facilitated the issue of many clandestine journals and brochures. To meet this problem the Allied Publications Board drafted two decrees, laying down a procedure with suitable penalties fpr applications to publish and for the declaration of all stocks of paper. Authority was also received, permitting the distribution of Bari newspapers in Foggia Province, thus giving the people there the first opportunity in many months to obtain printed news. For this purpose the "Gazzetta del Mezzogiorno" was permitted to increase its daily circulation from 30,000 to 40,000 copies.

99. At present there are two daily papers in Sardinia, "L'Unione Sarda" published in Cagliari, and "L'Isola" published in Sassari. Both these, at least in theory, express the general view of the Concentrazione Antifascista. There are in addition three weekly papers:

"Liberta"
"Orto Bene"
"Sardegna Catolica"

These weekly papers are all published under clerical auspices. They contain some news and local reports, but chiefly leading

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99. At present there are two daily papers in Sardinia, "L'Unione Sarda" published in Cagliari, and "L'Isola" published in Sassari. Both these, at least in theory, express the general view of the Concentrazione Antifascista. There are in addition three weekly papers:

"Liberta"
"Orto Bene"
"Sardegna Catolica"

These weekly papers are all published under clerical auspices. They contain some news and local reports, but chiefly leading articles of a religious or educational nature. Many of the political parties which comprise the Concentrazione Antifascista would like to publish their own weekly or monthly papers. It has already been pointed out to them that the best method of maintaining the unity of the Concentrazione is to give their united support to one good paper.

100. The establishment of a Public Relations Branch, hitherto somewhat neglected, to cover ACC and AMG activities was discussed and steps were taken to centralize and strengthen its functions. In order to meet criticism effectively and to provide a rapid service of information to the Allied Press, better and swifter transmission of newspapers and press clippings from Washington are urgently needed and were requested, so far without result. The publication of a monthly record of ACC activities was appro

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Press releases were issued on the transfer of territory to the Italian Government, the increase in the bread ration, the resumption of foreign mail services, the proposals of the Executive Giunta, the withdrawal of the Giunta's manifesto, the meeting of the Labor Conference, conditions in Sicily, the issue of revised text-books to elementary schools and the three-party cancellation of the proposed strike. Interviews were arranged with all the leading press correspondents and contact was established with P.R.Os of all organizations in the area.

REFUGEES

101. During the first three months of the campaign in Italy there have been large movements of refugees. On the west they had moved uncontrolled and dispersed themselves. On the east, S.C.A.O., 8th Army, with his limited staff and no refugee specialist officers, had collected and sent them to the rear areas, where they had dispersed independently.

102. From the start of the campaign until 31 January 1944 the movement was:-

8 Army side	30,600
5 Army side	1,800

Nearly all of these were dispersed in the areas adjacent to Bari, Brindisi and Lecce. During February the movement was:-

8 Army side	800
5 Army side	13,800

Included in the 5 Army figure are refugees from the beachhead numbering 4,900. The main evacuation started on Feb. 14. All these refugees have been sent back to the provinces of Potenza, Cosenza, Catanzaro and Reggio in Region II.

103. Great difficulty has been experienced in the matter of transit camps and the whole of the numbers handled during February have been passed through 2 small centers. These two centers can accommodate some 750 persons but are devoid of proper cooking and sanitary facilities. In the hot weather the situation would have been impossible, but as it was, the refugees were fed and the children given milk, doctors were in attendance and the sick sent to hospitals. Security screening was done and the Red Cross distributed clothing to all the needy.

104. Plans are now in hand for proper camps with capacities as follows:

West:

Capua - Capacity 4000 - Tented and mobile

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103. Great difficulty has been experienced in the matter of transit camps and the whole of the numbers handled during February have been passed through 2 small centers. These two centers can accommodate some 700 persons but are devoid of proper cooking and sanitary facilities. In the hot weather the situation would have been impossible, but as it was, the refugees were fed and the children given milk, doctors were in attendance and the sick sent to hospitals. Security screening was done and the Red Cross distributed clothing to all the needy.

104. Plans are now in hand for proper camps with capacities as follows:

West:

Capua - Capacity 4000 - Tented and mobile
Aversa - Capacity 3000 - In existing buildings
Naples - Capacity 2000 - In existing buildings

East:

Foggia - Capacity 5000 - Huts

The camp at Aversa is already functioning.

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105. Though a lot still remains to be done, the refugee problem was on the way to being solved by the end of the month. The biggest problem now is the dispersal of the refugees in the countryside, mainly in Region II.

106. The civilian population of Anzio and Nettuno were evacuated by the Germans in September 1943. These civilians were sent inland to the northern wooded Campana region where they have been confined ever since. The Germans left about 350 persons in the two towns and issued them with passes. They are bakers, doctors, electricians, railroad workers, etc. Approximately 15,000 were evacuated to the Campana region and it is estimated that about 3000 additional refugees have filtered in, making a total population of about 18,000 in this area.

107. This rather unusual situation of the two towns being almost entirely evacuated and the population being concentrated and controlled in one area is working well. AMG is carrying out food distribution along the lines established during the last five months. There is no major problem in the Campana area, the people having thoroughly settled down and become used to their life. The bread ration is being increased to 200 grams a day as evacuation reduces the number of civilians to be fed.

108. The details of the Allied Nationals Camp in Sicily are as follows:-

	Living in the Camp			Living without the Camp		
Nationality	Men	Women	Children	Men	Women	Children
Yugoslavs	69	9	5	19	13	4
Greeks	6	-	-	-	-	-
Polish	3	-	-	2	1	-
Czechoslovaks	5	-	-	-	1	-
Bulgarian (friendly)	1	-	-	-	-	-
French	2	-	-	-	-	-
Total	92	9	5	21	15	4

Grand Total:- 146

Adequate provision in the way of medical attention, food, clothing, shelter and recreational facilities has been made for these people.

Noel Mason Macfarlane

NOEL MASON MACFARLANE
Lieutenant General

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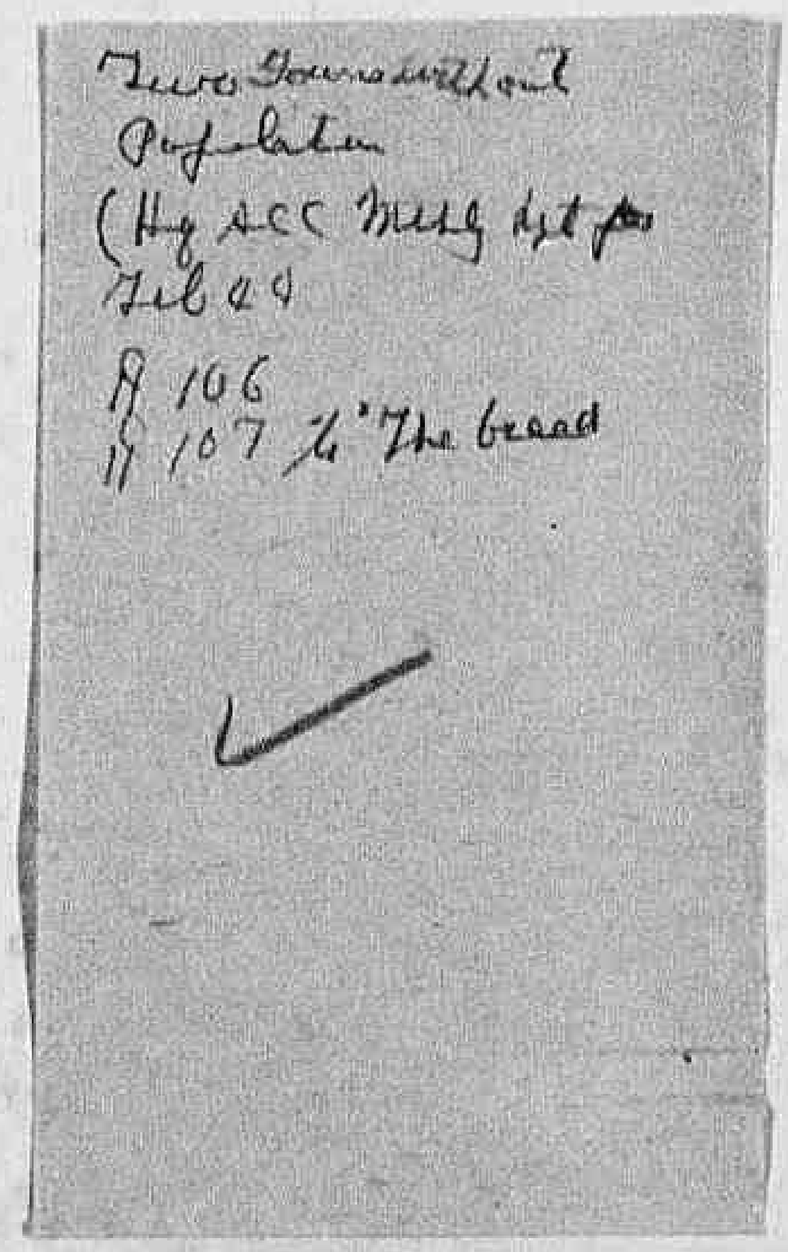
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Lieutenant General
Chief Commissioner

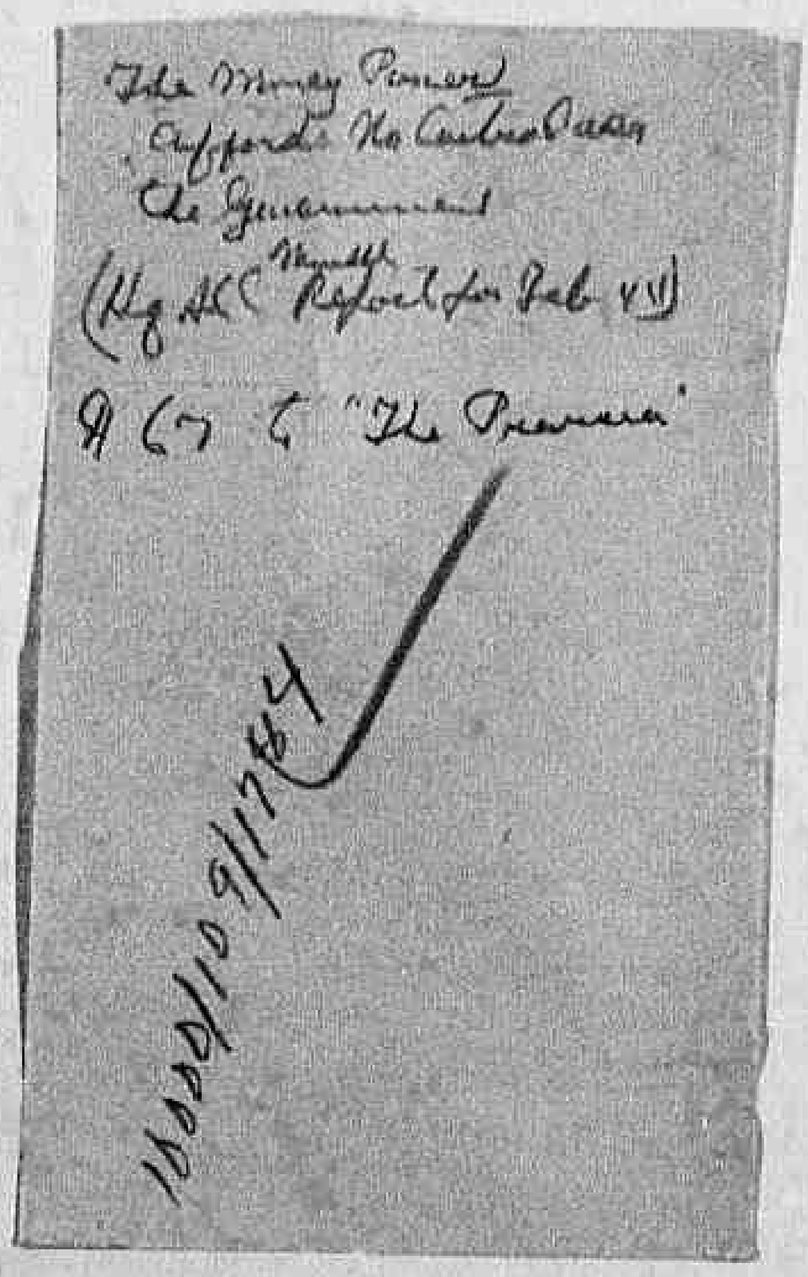
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APPX 'A'

SECRET

HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394

13071/F

10 March 1944.

REPORT OF THE FINANCE SUB-COMMISSION HQ ACC FOR FEBRUARY 1944

During February the Headquarters of the Finance Sub-Commission continued to be located in Naples, with representation at Salerno, the present seat of the Italian Government. The DCFO was absent during the month and the CFI was Acting DCFO.

I. PRICES AND THE COST OF LIVING

A. Price and Cost of Living Developments in February

1. Increase in bread ration

The most important development in prices and the cost of living during February was an increase in the bread ration to 200 grams per person per day, announced for all of occupied Italy beginning 7 February. Previously the ration was 125 grams in Naples and 150 grams in most of the other provinces. It is not yet known whether this ration is in fact being distributed in provinces other than Naples.

2. The cost of living

In Naples the effect of the increase in the bread ration was to reduce the weekly expenditure necessary for the purchase of 2 kilos of bread nearly 50%, from about 150 lire in the first week of February to about 80 lire after the increase. Increases in the prices of other foods over the January average have partially offset this gain, but the cost of purchasing the representative food budget for one person for one week (detailed in the January report), declined to about 320 lire for the week ending 15 February. Comparable figures for other recent dates are as follows:

month of January	-	348
week ending 30 January	-	391
" " 7 February	-	369
" " 15 February	-	319
" " 23 February	-	334
" " 29 February	-	342

3. Bread prices

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3. Bread prices

The price of black market bread in Naples rose sharply during January and the first week of February, reaching 135 lire per kilo. After the increase in the ration the price fell to 120 lire on 15 February and rose again to 130 lire, the current price. Since the price has not declined appreciably it is probable that civilians have continued to spend the bulk of their income for black market bread in order to increase their total bread consumption.

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4. Other prices

The Naples black market prices of potatoes, pasta, olive oil, and milk have shown little change during the month. Fruits, greens, fish, and cheese, however, have increased sharply. The increase in fish and cheese prices (about 50%) has brought the relationship between meat, fish, and cheese prices into line with the rest of liberated Italy.

B. Price Recommendations

1. Seed wheat

The opinion of the Sub-Commission was requested on the price to be charged farmers on 550 tons of seed wheat proposed to be distributed for seed use. A price of 600 lire per quintal was recommended on the conditions that:

(a) the farmers receiving the wheat be required to demonstrate a need for seed, to explain why they are without seed, and to agree to account for the disposition of their new crop through the Amassi; and

(b) that the Consorzio keep adequate records of the distribution of the seed.

2. Rents

An increase of 12% in living quarter rentals and 15% in other rentals has been proposed by the Italian Government. This Sub-Commission has recommended that the increase not be granted. While it is true that rents are very low in comparison with other prices, we believe that the hardship that would be imposed upon hard-pressed urban workers by a rent increase would not justify an increased income to the owners of urban real estate who are for the most part wealthy and who are holding real estate more as a hedge against inflation than as a source of current income.

3. Coal

(a) In view of the underestimate of the cost of sea transport for Sardinian coal moving from Sardinia to Sicily and the mainland, it has been recommended that the average price of such coal should be increased from the 600 lire per metric ton agreed upon at the price meeting in Algiers to 750 lire. It was also recommended that the subsidy making possible the sale of Sardinian coal in Sardinia at 150 lire be discontinued and that the price be increased to 350 lire, the approximate cost of production.

(b) It was recommended that coal imported from other areas be sold by the Italian coal agencies for use in Allied military purposes at a price adequate to cover costs plus a reasonable profit. Payment would be made in the form of a payment certificate

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(b) It was recommended that coal imported from other areas be sold by the Italian coal agencies for use in Allied military purposes at a price adequate to cover costs plus a reasonable profit. Payment would be made in the form of a payment certificate convertible by the coal agency through the Government. Coal used for other than Allied military purposes would be billed to the Italian Government at landed cost and sold by the Government to the coal agencies at a price permitting the latter to distribute the coal at current maximum retail prices. At present the Italian Government charges the coal agencies 1200 lire per metric ton. It was recommended that the price charged by the Government should be low enough to permit the coal to be sold at retail at not over 1400 lire per metric ton.

4. Telegraph rates

The Italian Government has proposed a 100% increase in telegraph rates. This proposal was referred to the Telecommunications - Postal Sub-Commission in

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order that they might make a decision in keeping with the decision on telephone rates which are currently being reviewed. We believe that telegraph rates are of little importance either to Italian businesses or Italian individuals.

II. ALLIED FINANCIAL AGENCY

A. Foreign Exchange Transactions

A large part of the time of officers of the Headquarters, Allied Financial Agency, and the personnel of the branch office in Palermo was employed in perfecting arrangements for financial transactions with the U.S. or U.K. and other allied or neutral countries.

1. Remittances from the U.S. and the U.K.

On 7 February 1944 the U.S. Treasury and War Department announced the restoration of facilities for living expenses remittances to Sicily, and the Treasury Department issued General License No. 32A, from which relevant paragraphs are quoted below:

"(1) Certain remittances to Sicily for living expenses authorized.

A general license is hereby granted authorizing remittances by any individual through any domestic bank to any individual within Sicily, and any domestic bank is authorized to effect such remittances, provided the following terms and conditions are complied with:

(a) Such remittances are made only for the necessary living expenses of the payee and his household;

(b) If the payee is not a citizen of the United States, the total of all remittances to such payee and his household effected in any three month period under this general license may not exceed $ 100;

(c) If the payee is a citizen of the United States, the total of all remittances to such payee and his household effected in any one calender month under this general license may not exceed $ 75, except that additional sums not exceeding $ 25 in any one calender month may be remitted for each member of such payee's household in addition to the payee who is a citizen of the United States, provided that in no case shall a sum in excess of $ 150 per calender month be remitted to any such payee and his household;

(d) Such remittances are not made from a blocked account other than from an account in a banking institution within the United States in the name of, or in which the

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(d) Such remittances are not made from a blocked account other than from an account in a banking institution within the United States in the name of, or in which the beneficial interest is held by, a citizen of the United States who is the payee or a member of his household; and

(e) Such remittances are effected only by the payment of the dollar amount of the remittance to a domestic bank for credit to a post-liberation blocked account in the name of "Bank of Sicily, Account AF".

"(2) Duty of individuals and domestic banks acting under this license.

All individuals making such remittances and all domestic banks effecting such remittances shall satisfy themselves that the foregoing terms and conditions are complied with. ....

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"(4) Reports by domestic banks maintaining post-liberation blocked accounts.

Domestic banks maintaining post-liberation blocked accounts in the name of "Bank of Sicily AF" shall report promptly the establishment of such accounts, and the balances therein at the end of each calender month, to the appropriate Federal Reserve Bank.

"(5) Refunds.

Domestic banks are authorized to refund the amount of any remittance ordered pursuant to this general license when such domestic banks are advised that such remittance cannot be effected.

"(6) Waiver of General Ruling No. 11 and General Ruling No. 5A.

Transactions authorized herein and communications with persons in Sicily relating thereto are authorized notwithstanding General Ruling No. 11. Domestic banks are authorized, notwithstanding General Ruling No. 5A, to send to and receive from the Bank of Sicily non-negotiable bank payment orders covering remittances or refunds authorized herein.

"(7) Definitions.

As used in this general license:

(a) The term "household" shall mean:

(i) those individuals sharing a common dwelling as a family; or

(ii) any individual not sharing a common dwelling with others as a family.

(b) The term "post-liberation blocked account" shall mean a blocked account:

(i) which is established pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account;

(ii) to which funds may be credited only pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account; and

(iii) with respect to which payments, transfers, or withdrawals or other dealings may not be made or effected except pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account."

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(iii) with respect to which payments, transfers, or withdrawals or other dealings may not be made or effected except pursuant to this license or any other license or other authorization expressly referring to a post-liberation blocked account."

TAM Airgram 1, which transmitted this General License to this Headquarters also quoted relevant paragraphs from letters addressed to the Banco di Sicilia by the Guaranty Trust Company, the Chase National Bank, the National City Bank, and the Irving Trust Company. The remaining four correspondent banks chosen by the Banco di Sicilia had not as yet prepared communications for the Banco di Sicilia, at the time of issuance of the General License. Some nine other U.S. financial institutions have already applied to the Banco di Sicilia to act as correspondents for remittance purposes, but no additions to the existing list of correspondents are being made without the prior approval of AFA Headquarters, because of the limited staff available to AFA

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branches, for processing correspondence and for effecting the necessary accounting entries on the books of the Allied Financial Agency.

TAM Airgram 1 also required certain changes in the procedure outlined in the original proposal made by the Allied Financial Agency, in that credits to the AF dollar accounts held by U.S. correspondents for the Banco di Sicilia would not be effected until the U.S. banks were notified that the payee had received lire. This will avoid the necessity for debiting these AF accounts when refunds must be made to the remitter because lire cannot be paid to the designated beneficiary. The relevant passages from the Airgram are quoted below:

> "2. Banks designated in your cable 21 January 1944 have been notified of their selection by the Bank of Sicily as correspondents, and these banks have been instructed to forward their remittance schedules as outlined in your 16 January 1944 letter addressed to 'Banco di Sicilia, APO No. 4400 c/o Postmaster, New York, New York.' Replies have been procured thus far from New York banks only. With respect to accounts to be opened by such designated banks, you are requested to facilitate prompt submission to these banks by Banco di Sicilia of following:
>
> (a) Request from Banco di Sicilia that account be opened on terms specified, i.e., that credits to accounts for remittances will be made only after banks here have received:
>
> (i) receipts executed by designated beneficiaries; and
>
> (ii) guarantees by the Banco di Sicilia that designated persons received the payments;
>
> (b) Specimen signatures of persons authorized to operate accounts and execute guarantees that designated beneficiaries received remittance payments;
>
> (c) Authentication by appropriate Allied Military Authorities of signatures and authority of persons who will operate accounts and execute guarantees."

In accordance with the instructions contained in the two documents just mentioned, the branch office in Palermo took measures to procure and transmit to the U.S. banks the necessary documents. Correspondence from the U.S. banks is addressed to the Banco di Sicilia at APO 4400, and is then collected by AFA Palermo. This correspondence is given to the Banco di Sicilia, after appropriate records are made by AFA. Correspondence from the Banco di Sicilia is now addressed to the U.S. correspondent banks through channels, but AFA Palermo has suggested that a special Post Office address, such as the Federal Reserve Bank of New York, be utilized for routine matter passing to the U.S. banks.

In order to effect payments to U.S. citizens at the higher level contemplated by the General License, the Palermo branch of the Allied Financial

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(ii) guarantees by the Banco di Sicilia that designated persons received the payments;

(b) Specimen signatures of persons authorized to operate accounts and execute guarantees that designated beneficiaries received remittance payments;

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In order to effect payments to U.S. citizens at the higher level contemplated by the General License, the Palermo branch of the Allied Financial Agency has notified us that the following arrangements have been made with Consul General Nestor in Palermo:

"all remittance lists covering payments to American citizens will be submitted to the Consul General for certification that the payees are in fact American nationals. However, Mr. Nestor again pointed out that most of his documents are in Washington and that it will be necessary for him to refer to the State Department in those cases where the documents of a payee are insufficient to enable him to express an opinion as to citizenship status. Moreover, payees who are not domiciled in Palermo will be required to forward to the Consul General their citizenship papers before payment

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can be made, thereby involving a certain amount of correspondence and delay."

As the Combined Civil Affairs Committee, through the Combined Chiefs of Staff, has directed that the dollar and sterling proceeds of remittances be under the "exclusive supervision and control of the Allied Financial Agency", AFA Palermo was directed to secure a signed undertaking from the Banco di Sicilia that orders of payment, either mail or cable, on its AF dollar or sterling accounts with its foreign correspondents, would be promptly delivered to the order of AFA Headquarters, upon presentation of demands for such orders of payment, which in all cases must be signed by two officers of AFA Headquarters. (The authorized signatures of the officers of AFA Headquarters have been transmitted to all branches of AFA with instructions to distribute to all interested banks.)

With respect to remittances from the United Kingdom, the Bank of England addressed a letter to the Banco di Sicilia on 10 February 1944, agreeing to open a non-interest bearing "AF account" for the Banco di Sicilia, and setting forth the terms and conditions for operating the account. These are in agreement with the procedure outlined in the January report. The Banco di Sicilia has accepted these terms by cable, and will confirm the acceptance by letter.

On 1 March 1944, following the conclusion of negotiations with the Banco di Napoli, the Military Government Section of AFHQ was advised that the Banco di Napoli is prepared to effect remittances to Sardinia and to the following provinces on the mainland, following the Sicilian procedure, as soon as the necessary authorization is obtained from the authorities in the United States and the United Kingdom:

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

As in the case of the Banco di Sicilia, AFA Headquarters will reserve the right to limit the total number of correspondents in the United States, as this is dictated by the practical limitations imposed by the limited personnel available to the branch office of AFA in Naples.

It is also hoped that no authorization for remittances to American nationals on a differential scale will be authorized by this second General License, as there are no consular representatives in Sardinia or on the mainland who may pass on the nationality of American applicants, and reference to the Consul General in Sicily is impracticable.

2. Advances to British, American and other Allied Nationals

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The procedure outlined in the report for January was embodied in a draft executive memorandum designed to be circulated by the Allied Control Commission. However, the Political Section of ACC has not as yet approved this draft. In the meantime the various Regional Finance Commissioners are making advances in cases where they are satisfied that the applicants are nationals and that the funds are required to cover minimum essential needs. The principal difficulty which has delayed the establishment of a uniform procedure is the fact that there is no U.S. consular representative in Sardinia or on the mainland of Italy, while the Consul General at Palermo is reluctant to render decisions as to nationality of American applicants, as he has pointed out that most of the files of the old Sicilian Consulate are still in the State Department in Washington. There appears to be no alternative open to field officers of AMG/ACC at present other than to refuse assistance and to transmit to

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the Finance Sub-Commission, for Consul General Nestor, the supporting documents submitted by American applicants who do not possess:

(a) A U.S. passport valid on 30 June 1941;

(b) an American certificate of registration valid on 30 June 1941;

(c) a notice of official approval by a proper officer of the State Department of application for a certificate of registration for a period extending beyond 30 June 1941;

(d) satisfactory evidence that the applicant was receiving advances through Swiss diplomatic representatives prior to his appearance in liberated Italy.

The obligation to repay is fixed in terms of dollars or sterling, but repayment may be made in lire equivalent to the dollar obligation at the rate of exchange prevailing on the date of repayment or equivalent to the sterling obligation at the rate of exchange prevailing on the date on which the advance was granted.

Requests have been made by the Greek and Czech missions and by other allied missions in Italy that the Allied Financial Agency advance lump sums to them for the relief of their destitute nationals, who are not actually employed by the staffs of the missions. In view of the fact that the governments of these missions have provided no funds and given no directions, through CCAC, similar to those provided by the British and American Governments, and in the light of the severe limitations on actual advances imposed both by regulation and by administrative difficulties in the case of British and American nationals, the Allied Financial Agency considers that it has no authority to grant advances of this type. In cases of extreme necessity, some Allied nationals are receiving advances as individuals, however, in amounts exceeding the Italian relief scale.

3. Foreign Exchange Resulting From Exports

Correspondence was exchanged with the Military Government Section, AFHQ, regarding the appropriate procedure for setting up AF accounts in which the proceeds of exports from Italy to Allied and neutral countries will be deposited, but no such accounts have as yet been opened.

B. Financial Transactions with the Allied Armed Forces

During the month the Allied armed forces continued to draw funds from the branches of AFA according to standard procedure. In response to a request for information on the types of Italian currency acceptable to the Bank of Italy, AFA Headquarters advised the Finance Officer of the Fifth Army that the Bank of Italy would supply sets of notes now acceptable to serve as a guide to the finance officers of that army.

The Allied Financial Agency was advised that the Military Government Section of AFHQ had suggested, on 7 February, that the British Treasury and other British Ministries concerned consider the possibility of establishing bank

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The Allied Financial Agency was advised that the Military Government Section of AFHQ had suggested, on 7 February, that the British Treasury and other British Ministries concerned consider the possibility of establishing bank accounts with the Banco di Napoli and the Banco di Sicilia, for the purpose of effecting British military and naval payments by cheque, thus avoiding transfers of physical cash, on the assumption that there might already be enough cash in the hands of banks in the regions where the military disbursements take place. AFA has received no information as to the action taken on this recommendation, but should such a decision be made, it appears probable that army transport would be needed in many cases to move physical cash for the Bank of Italy and/or the private Italian bank concerned, to areas such as the front lines.

C. Accounting

Statements of assets and liabilities were prepared by the AFA branches at Palermo and Bari as of 10 February 1944, as a result of the change from AMG to

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ACC in Regions I and II. It has, however, been decided to refer to the Headquarters and to all branches of the Allied Financial Agency by that title, instead of retaining the name of Allied Military Financial Agency for the Naples branch, and other branches in AMG territory.

D. Lire Currency

The branches of the Allied Financial Agency were directed to prepare twice a month a statement showing the total number of unopened boxes of AM Lire held by them in each denomination, together with a similar report on the number of unopened boxes held by Italian banks. These reports will be consolidated at AFA Headquarters, to provide current data on the supply available in each area.

E. Foreign Assets and Foreign Currency

On 12 February authority was requested of the Combined Chiefs of Staff to authorize Italian banks to accept blue seal dollars and pound sterling notes at the current exchange rate in lire, for account of the Allied Financial Agency. The Military Government Section of AFHQ has authorized this procedure, subject to confirmation by the Combined Chiefs of Staff, which has not yet been received by AFA.

In response to a request from the War Office in London, MGS was advised of the various types of currency being brought in to Italy by Yugoslav refugees. Besides notes issued under Alexander I and Peter II, these include Croatian kunas printed in Germany since 10 April 1941, and Italian lire currency. No authority has as yet been received to accept any of these notes for account of the Allied Financial Agency.

The Chief of AFA met with the Finance Commissioner of Region III to discuss the voluntary opening of safe deposit boxes in that area. It was reported that 12,000 out of 19,650 boxes in Naples City had been opened and that a list of the small amount of foreign assets taken into custody by the Finance Officers was being prepared.

F. Relations with Italian Treasury

The Chief of AFA participated in conferences with the Minister of Finance in the Italian Government which will result in the provision of overdraft credits by the Banca d'Italia to the Italian Treasury in Sicily to cover public deficits. This will make use of the large supplies of currency now in the hands of the Banca d'Italia there and conserve unopened boxes of AM Lire for subsequent disbursement to the Allied armed forces.

The desirability was discussed of withdrawing some currency now in circulation for the purpose of avoiding excess reserves in the Italian banking system, and thus facilitating supervision of budgetary expenditure. The Chief of AFA recommended the establishment of a new account in the Banca d'Italia for the Allied Financial Agency, to be covered at all times by 100 per cent cash reserve in lire. In this account would be deposited the surplus cash of the Banca d'Italia, in repayment of advances previously made to the Treasury by AFA. It would be hoped that AFA would not be called upon to draw much of this amount

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G. Statistical and Other Information

A member of the Headquarters staff participated in the elaboration of a statistical questionnaire to be sent to all branches of the Banca d'Italia and tabulated by the head office of that institution. An attempt was made to include in this report all the items of information which will be of value to the Allied

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Financial Agency in future months.

Data were collected from the Banca d'Italia and from other sources for several special studies being undertaken by the Sub-Commission.

H. Inspection Trip

The Chief and Vice-Chief of AFA visited Matera, Bari, and Foggia on 21 - 23 February. At Matera they were informed by the Regional Finance Officer that Italian civilians in Apulia and in Region II had always had access to their safe deposit boxes without restriction, and that consequently almost no foreign assets had been impounded either by AFA or by the Finance officers of AMG. Fascist bank accounts had been blocked, and some securities and other assets belonging to such persons taken into custody. The Acting Regional Finance Officer of Region II agreed that he would return to AFA a large number of unopened boxes of AM Lire which had been deposited by Finance Officers in Italian banks in Region II.

At Bari the vaults in which reserve cash is stored were inspected and found to be satisfactory. The principal problem faced by the branch manager of AFA in that city is consideration of the demands presented to him by various Allied missions for funds to be expended on the relief of their nationals. As explained heretofore, he has no authority to extend such advances.

At Foggia it was arranged that Region V will draw necessary funds from the branch at Bari, if possible. Eventually a branch of AFA may be established in Region V.

I. Establishment of New Branches

As of 31 January, books were opened for a branch of the Allied Financial Agency in Region IV. The files of this branch are at present maintained in the office of AFA Headquarters.

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III. FINANCIAL INSTITUTIONS

A. General

1. New management for the Bank of Naples and the Bank of Italy, Naples.

Arrangements were made through the Public Relations Officer, ACC, and the Psychological Warfare Board for wide newspaper publicity to be given to the appointment of Mr. Cesare Ricciardi as Special Commissioner of the Bank of Naples, Mr. Arturo Rossignoli as General Manager of the same bank, and Mr. Arturo Atti as Commissioner of the Bank of Italy in liberated Italy. Their appointments were announced on 15 February and were well received. On the eve of the public announcement the Italian Minister of Finance convened a meeting of Naples bankers to acquaint them with the names of the Government's appointees and to stress the importance of the role of the banks in Italy's economic future. In order that the action of the Italian Government might have effect in Region III, the Legal Sub-Commission at our request drafted General Orders 21 and 22, making applicable to AMG Territory the relative Italian Government decrees.

2. Implementation of AFHQ Administrative Memorandum No. 95

Following the 17 January meeting of the Local Resources (Italian) Board (see January operations report) the Finance Sub-Commission developed a comprehensive program whereby the Italian Government is to pay for all goods and services furnished to the Allied Armed forces. In brief, it is planned that a voucher will be given to each supplier, showing the goods or services furnished and the cost thereof. The supplier will present such voucher to the Intendente di Finanze of his province and the Intendente, after receiving a duplicate voucher direct from the Army, will order payment to the supplier through the Banca d'Italia or the post office system.

After discussion with interested sections of AFHQ Advanced Administrative Echelon and American and British finance officers, representatives of the Finance Sub-Commission met with Brigadier General Hamblen, AFHQ, who approved the plan in principle. Subsequently a voucher form and a draft instruction from AFHQ directing that the plan be instituted were drawn up and cleared with the Army. The Italian Government was consulted early in the planning and the Minister of Finance has agreed to the arrangements and is issuing appropriate instructions to his Intendentes. It now remains to present the final documents to AFHQ, which will instruct the British and American armies, navies, and air forces and the supply services to apply the procedure in procuring goods and services.

3. Payment of interest during a moratorium period

In January it was agreed that Article 2, Section 2 of Proclamation No. 5 should be amended by deleting the clause providing for the non-accrual of interest during a moratorium period. After this action was taken, a question arose whether in new areas it would not be

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4. Termination of restrictions on real property transactions

The Minister of Finance informed us that in the provinces of Bari, Brindisi, Lecce, and Taranto (where no restrictions were ever applied) the volume of real property transactions has shown a decline rather than an increase and that he recommended lifting the restriction both in the area under control of the Italian Government and AMG territory. After consideration of the question the Sub-Commission agreed with this recommendation, on the grounds that (a) unnecessary restrictions should be lifted, and (b) the Italian Government would increase its revenues through the turnover tax applicable to land transfers. Accordingly, the Minister of Finance was informed that the Finance Sub-Commission was prepared to permit the Italian Government to terminate the restriction provided that statistics on the volume of real property transactions are furnished to us at regular intervals of a few weeks. The Minister of Finance agreed to do so. A general order will be published in AMG territory lifting the prohibition.

5. Paper for Buoni del Tesoro Ordinari and Banca d'Italia vaglie

We were advised by MCS, AFHQ that supplies of first grade bond paper could be made available to the Italian Government for the printing of B.T.O's and vaglie. An order was placed on behalf of the Government for 175,000 sheets for B.T.O's and 215,000 sheets for vaglie.

6. Financial controls program

In connection with the program of blocking and other financial controls, an analysis was begun of Italian foreign exchange, foreign trade, and trading with the enemy decrees, in order to determine whether modifications are required at the present time. Work was continued on a report requested by CCS showing the number of bank accounts blocked in Italy, the value of such accounts and the ownership thereof. Representatives of the Finance Sub-Commission also collaborated with the Controller of Property in considering what action ACC desires of the Italian Government toward property of German, Hungarian, Roumanian and Bulgarian nationals.

7. Clearance of draft decrees.

The Finance Sub-Commission consulted with the Legal Sub-Commission on the preparation of a memorandum setting forth the procedure whereby Italian Government draft decrees are to be cleared by ACC.

8. Financing of highway construction

Arrangements were concluded whereby road repairs requested of the Public Works Sub-Commission by the Allied armies will be financed out of a newly established capital in the budget of the Italian Ministry of Public Works. Actual disbursement, where practicable, will be by

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B. Commercial Insurance

1. Formation of Naples insurance committee

Activities of the Insurance Unit, CFI, have been directed to the formation of a committee of insurance interests in Naples to act as a responsible and representative body with which the Finance Sub-Commission can deal and through which instructions can be transmitted to insurance companies. The formation of such a committee was suggested to the Under Secretary of Commerce and Industry, who approved and placed the matter in the hands of senior officials of the leading companies. An announcement of the committee's formation is expected in the immediate future.

2. Revocation of Region II insurance directive.

During the month, Region II reported the cancellation of their orders to insurance agents dated 20 December 1943, which had been the cause of considerable apprehension to Company officials and to the Under-Secretary of Commerce and Industry (see January report). Agents in Region II are now required to place themselves under the orders of their nearest Company superiors, and the offer of AFA advances for the claims they were supposed to pay has been cancelled.

3. Authority of Naples offices over local agents

Considerable attention has been devoted to bringing the Naples offices of insurance companies into control of their organizations in liberated Italy, as it was known that the most important companies had empowered their Naples offices to assume this control in the event of severed communications with their Head Offices, and had provided them with funds for the purpose. The Under-Secretary of Commerce and Industry expressed his strong wish that this should be accomplished as soon as possible, as the present uncoordinated activities of agents in liberated territory might, unless properly controlled by company officials, have undesirable effects. Some delay has been experienced in securing details of the powers granted by Head Offices to their Naples offices, and the Insurance Unit is not prepared to recommend a formal assumption of control by these branches until it is fully informed as to the extent of such powers. A draft instruction was prepared during the month, however, and requires only the insertion of the names of the Companies concerned before being submitted for approval as a definite AGC order to Regions. Copies of the powers granted to the Naples officials of the Assicurazioni Generali, and the Allearza Vita (of the Generali group) were received in the Insurance Unit on the last day of February. The document for the former Company is a power of attorney dated 11 August 1943; that for the latter a Company Circular dated July 1943 covering not only south Italy, but other territory as well. Both documents appear to give ample powers to the officials named fully to represent their companies and take charge of their interests in liberated Italy. Considering the importance of these documents, it is to be regretted that their existence was not brought to the notice of the Insurance Unit at an early date by the

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Italy can be put on a sound administrative footing with a central point (the Naples Committee) at which Allied or Italian governmental contact can be efficiently maintained.

4. Plan for handling insurance problems in Rome

A memorandum has been drafted and submitted to the CFI outlining certain information on insurance that will be needed when Rome is reached and a plan for handling the operations of insurance companies. This plan has been devised because it is considered that the existence of Head Offices in Rome (particularly that of the Istituto Nazionale di Assicurazioni) will present problems of the type which will be encountered later in Milan and Turin. The plan embodies provisions to remove certain administrative difficulties hitherto experienced by the Insurance Unit which to a great extent prevented earlier co-ordination in Regions II and III, and may cause considerable trouble later if left untouched.

5. Insurance intelligence

During the month, copies of the 1942 accounts of the two largest Companies (Assicurazioni Generali & Riunione Adriatica) were obtained and forwarded to the CFI, attention being drawn to the high proportion of real estate (the only asset subdivided by countries) owned by both Companies in certain occupied European countries. From the 1942 Italian Insurance Annual a fairly up-to-date list of Companies operating in Italy was compiled and submitted, also showing published details of the sequestration of British and French Companies in 1940/41. From the same Annual, leading statistics of all Companies are now available up to the end of 1940.

6. Investigation of Naples insurance company.

Direction has been sought for the investigation of the head office of the Naples "Compagnia Partenopea di Assicurazioni e Riassicurazioni", which is known to be actively engaged in marine business. Although it is only a small Company with assets of about 2 million lire, investigation is recommended on the lines visualised for Rome if only for the practical experience to be gained thereby.

7. Marine insurance

On 9 February 1944 representatives of the Insurance Unit attended a meeting in Naples of shipowners and marine insurance officials. The business discussed was war risks and ordinary marine risks on vessels of 300 tons and less. The meeting was informed that in view of the complete lack of facilities for insuring war risks in AMG areas, ACC was willing to authorise extension to those areas of Proclamation No. 9 of the Italian Government in which the Government announced that assumption of such risks would be undertaken by the Government in substitution for the former facilities in Rome. Region III had earlier ruled to the Companies that the Government scheme was not applicable to the Naples area. In the

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...ances of Head Offices in Rome (particularly that of the Istituto Nazionale di Assicurazioni) will present problems of the type which will be encountered later in Milan and Turin. The plan embodies provisions to remove certain administrative difficulties hitherto experienced by the Insurance Unit which to a great extent prevented earlier co-ordination in Regions II and III, and may cause considerable trouble later if left untouched.

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present facilities in liberated Italy are inadequate for coverage of ordinary marine risks on these vessels. The amount of cover that local insurance officials can provide is clearly limited (although it is being stretched as far as is reasonably possible by reinsurance amongst themselves), and wider cover is desirable. Insurers and shipowners requested the intervention of ACC with a view to procuring access for them to the British insurance market. They were informed that under present conditions this is not possible.

8. Aid to insurance companies in communicating with agents and policy-holders

Conversations have taken place with the Telecommunications - Postal Sub-Commission with a view to aiding the Naples offices of insurance companies to establish postal communication with their agencies and policyholders. It is understood that an internal service is now in operation in Italian Government territory, but connection of Naples to it has not yet been established. The handicap worked on the companies by this lack of postal services is emphasised. The [illegible] has also managed to facilitate the travel of officials of companies for the purpose of inspecting agents normally under their care, and has secured a number of passes for them from the appropriate authority.

C. Social Insurance

1. Problems of authorization

There are a number of situations in which institutions continue to collect funds for a specific type of disbursement, but have not continued or resumed payments on the ground that they were not authorized to do so. Under Royal Decree Law No. 5 dated 8 January 1942 Italian employers are directed to set aside one-twelfth of the total yearly salary paid to their employees for an indemnity on termination of employment. The amount varies with length of service and rate of remuneration and the funds are held by Istituto Nazionale delle Assicurazioni, the Naples Office of which is withholding payment of these indemnities because no instruction was received from Rome prior to our occupation. The matter was previously raised in Sicily in September and after due consideration we recommended the resumption of payments throughout Sicily, which establishes a clear precedent for similar authorization on the mainland. It is recommended that this authorization should be issued in all areas under our direct jurisdiction, and that the Italian government should be approached to determine whether action is necessary in Regions I and II.

Royal Decree Law No. 1345 dated 30 October 1941 directed provincial offices of Istituto di Previdenza Sociale to pay allowances on behalf of the Italian Government to dependents of non-manual workers employed in Africa. The Naples office of Previdenza is, however, [illegible]

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2. Problems of coverage

Employment of large numbers of civilians by Allied armed forces, including ACC, has raised certain problems relative to their

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status under Italian social insurance laws. Employers contracting with our armed forces should be subject to the same obligations relative to social insurance of their employees, as are other private employers. Under international law, and by the terms of our own proclamations, statutes not formally abrogated by us remain in effect. As long ago as 5 November 1943 the Italian Government agreed (No 2492/AC) to reimburse all accident claims of civilian employees of the Allied armies whom it is compulsory to insure under Italian law. It is emphasized that this law (No 1765 of 1935) applies only to scheduled extra-hazardous occupations and, whether publicly or privately employed, clerical and administrative employees are not covered. Thus the employees of AMG or ACC coming within this latter category are excluded.

In consequence of a report received by the CFO of difficulties being experienced by Eighth Army in connection with claims settlements in respect of accidents to civilians employed by them, due to non-availability of officials of Istituto Nazionale Infortuni in the forward areas, arrangements have been made for the National Secretary of the Istituto in Naples personally to visit Main HQ Eighth Army with a view to making suitable arrangements to meet the situation.

The Italian Government has now adopted a plan for covering all necessary social insurances for civilian employees of the Allied armies, for 20% of payroll (plus a fraction of one per cent for expenses). This accords with our recommendation in January that only essential coverages be considered. The application of this plan, however, has met with certain objections:

(a) the armed forces cannot recognize any right to be taxed by hitherto existing public authority.

(b) they hesitate to accept any situation which tends to multiply their already large volume of paper work.

(c) for security reasons, they cannot reveal to any civilian agency the size of their civilian payroll.

It is understood that the Italian Government is willing to assume the financial burden, in order to solve the first objection. Simplification of coverages and forms which is now being studied by the Italian Government may meet the second objection. The third objection might be met by calculating premium payments on an annual basis in arrears, as this would appear to dispose of the security difficulty.

3. Contributions

Social insurance institutions continue to operate under financial difficulties in the area so far liberated. In this area the

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4. Suspended reimbursements and the wage base

The Labour Sub-Commission has recently become interested in incorporating a number of indemnities in the basic wage, among them the indennita di presenza (bonus for presence at work). They hold that the indemnity has become regarded as part of the worker's normal compensation, and that its termination would be widely interpreted as a wage-cut. They propose (a) that suspension of reimbursement of part of the indemnity by Istituto di Providenza Sociale be lifted, (b) that this be made retroactive to 1 October 1943, and (c) that the whole matter be thoroughly studied with a view to finding a more satisfactory solution eliminating IPS entirely from the picture. There is, however, a more direct route to the principal objective. It is not recommended to reconstitute a discredited system for the brief period during which necessary action is to be taken which will completely replace it. IPS does not have the funds to make these reimbursements, and resumption of them would further add to the advances currently being made by AFA. It has not been shown that Italian employers generally are unable to advance the full indemnity themselves, and apparently this is the ultimate intention of the proponents. It is recommended that these reimbursements should be permanently revoked and if it seems just collection of the 5% payroll tax, a part of the proceeds of which may partially have covered these reimbursements. It is also recommended that there should be consultation with the Italian Government to insure uniform action.

5. Problem of benefits

The report on proposed state pension increases, submitted by the Insurance Unit on 11 February, estimated that additional payments of from L. 25,000,000 to L. 26,000,000 will probably be required monthly in the 26 provinces completely liberated when the estimate was made. Pressure for a similar adjustment of private pensions must be expected, we concluded, and anticipating this, we should ask corresponding adjustment of contribution rates to resist not only an inflationary tendency, but undermining of the actuarial foundations of the system. We had been asked to study alternative scales of increase so graduated as to help the small pensioner more generously. It appears that these pensioners do not generally stand in need of more generous treatment, but have other sources of income, either from other pension payments or in respect of present employment. Few recipients of small pensions have worked for the State or served in the armed forces for extended periods of time. Survivors receiving "indirect" pensions appear to be clearly entitled to the

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The recent change in the status of the Italian Government necessitates reconsideration of the "modus operandi" in effecting any increase in state pensions. At a meeting held on 19 February, these recommendations regarding state pensions were adopted so far as ACC is concerned, and are being discussed with representatives of the Italian Government.

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D. Post Office Financial Services

1. Preparation of temporary savings certificate

Stocks of postal savings bonds are running low throughout liberated Italy and vigourous efforts were made during February to provide a temporary certificate and to begin reprinting of the original bonds. The design of the temporary certificate was worked out with the Telecommunications-Postal Sub-Commission and the Under Secretary for Posts and Telecommunications of the Italian Government. Paper was secured from AFHQ and a first order for 250,000 certificates was placed. Deliveries to the post office system will be made at the beginning of March.

2. Reprinting of postal savings bonds

The reprinting of the original form of postal savings bonds has been delayed by difficulties in obtaining supplies of suitable paper. Paper has finally been secured from stocks requisitioned at Foggia and is in process of delivery to the printer. Certain essential chemicals have also to be provided. It is estimated that the new bonds will not be on sale for at least three to four months.

3. Responsibility for operation of post office financial services

As a result of several meetings with the Telecommunications-Postal Sub-Commission during the month a procedure was drafted setting forth the responsibilities of each sub-commission for the operation of post office financial services. A memorandum embodying this procedure was submitted to the Executive Commissioner's office for appropriate distribution.

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IV. ITALIAN GOVERNMENT FINANCE - EXPENDITURES AND REVENUES

A. Budget and Expenditure Control

1. Present position

(a) The absence of effective expenditure control

To date there has been little effective control of Italian Government expenditures either by the Italian Government itself or by ACC. This has been the result of the inadequacies of the Italian system as presently operated by the Government, disruptions due to war, and serious shortage of ACC supervisory personnel.

At the present time there is no budget to provide a control over expenditures. The Italian budget was made in Rome and included expenditures for all of Italy. To meet this difficulty the Minister of Finance has required that "accredimenti", authorizations formerly issued by particular Ministries to permit certain agencies or officials to make expenditures within the budget, be signed by the Minister of Finance. This device, however, provides little control, for accredimenti have no time period and expenditures in any period may be greater or smaller than the amount of accredimenti issued in that period. Indeed, many Ministries are still using accredimenti issued by the Fascist Government. Through the use of accredimenti the Government is not able either to control the expenditures of the Ministries or to know what their expenditures are. Furthermore, the accredimenti system provides even less knowledge of military expenditures than of civil expenditures since the armed forces are permitted to disburse funds before obtaining accredimenti. Finally, no adequate figures of disbursements can be obtained even after the disbursements have been made, since reports of large amounts of Civil government disbursements are grouped under the heading "pagamenti collettivi", rather than under the Ministry for whose account the disbursements were made.

(b) Budget estimates

The Italian Government has submitted the budget data shown below. These data do not represent a budget in the sense of authorizations to spend. They are rather estimates of the Minister of Finance submitted to ACC in connection with an analysis of whether the Government's cash position would cover the requirements of the coming month. The data make possible comparison of the Minister's estimates for February with estimates for earlier months. They refer to civil government operations in Puglia (less Foggia) and to military needs in all of liberated Italy.

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To date there has been little effective control of Italian Government expenditures either by the Italian Government itself or by ACC. This has been the result of the inadequacies of the Italian system as presently operated by the Government, disruptions due to war, and serious shortage of ACC supervisory personnel.

At the present time there is no budget to provide a control over expenditures. The Italian budget was made in Rome and included expenditures for all of Italy. To meet this difficulty the Minister of Finance has required that "accredimenti", authorizations formerly issued by particular Ministries to permit certain agencies or officials to make expenditures within the budget, be signed by the Minister of Finance. This device, however, provides little control, for accredimenti have no time period and expenditures in any period may be greater or smaller than the amount of accredimenti issued in that period. Indeed, many Ministries are still using accredimenti issued by the Fascist Government. Through the use of accredimenti the Government is not able either to control the expenditures of the Ministries or to know what their expenditures are. Furthermore, the accredimenti system provides even less knowledge of military expenditures than of civil expenditures since the armed forces are permitted to disburse funds before obtaining accredimenti. Finally, no adequate figures of disbursements can be obtained even after the disbursements have been made, since reports of large amounts of Civil government disbursements are grouped under the heading "pagamenti collettivi", rather than under the Ministry for whose account the disbursements were made.

(b) Budget estimates

The Italian Government has submitted the budget data shown below. These data do not represent a budget in the sense of authorizations to spend. They are rather estimates of the Minister of Finance submitted to ACC in connection with an analysis of whether the Government's cash position would cover the requirements of the coming month. The data make possible comparison of the Minister's estimates for February with estimates for earlier months. They refer to civil government operations in Puglia (less Foggia) and to military needs in all of liberated Italy.

Government Budget Estimates

	December 1943	January 1944	February 1944
	(millions of lire)		
Finance	93.0	20.0	20.0
Justice	2.5	5.0	5.0
Foreign Affairs	1.0	1.0	1.0
Education	7.0	13.0	13.0
Interior	100.0	55.0	70.0
Public Works	5.0	6.0	10.0

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Government Budget Estimates (Contd.)

	December 1943	January 1944	February 1944
	(millions of lire)		
Communications	165.0	190.0	210.0
Agriculture	1.0	3.0	3.0
Industry & Commerce	1.0	.5	.5
Popular Culture	1.0	-	-
Total Civil Ministries	376.5	293.5	332.5
Monopolies	1.0	7.0	45.0
Lottery	.1	.5	.5
Public Debt	5.0	16.0	22.0
Buoni del Tesoro Ordinari	21.0	Meaningless capital and transfer items incorrectly included in December estimates.	
Buoni del Tesoro Poliennli	2.0		
Enti Militari	3.0		
Contrablilta Speciale - Varie	25.0		
Fondi Somministrati	86.0		
Collettivi Varie	25.0		
Sub Total	168.1	86.5	67.5
Total (exclusive of military)	544.6	380.0	400.0
Army	577.0	578.2	614.4
Navy	135.4	237.6	281.0
Air Force	143.1	104.4	78.1
Total Military	855.5	920.3	973.5
Total	1,400.1	1,300.3	1,041.0

(c) Cash disbursements

Figures submitted by the Banca d'Italia on cash disbursements by the Civil Ministries in Puglia are very incomplete. They total only 30 million lire for December and 40 million lire for January, only 8% and 1% respectively, of the budget estimates for these months. The great incompleteness of these data is shown below:

Comparison of Estimates for Civil Ministries made by Minister of Finance with disbursements recorded by the Banca d'Italia (Puglia)

(thousands of lire)

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Total Civil Ministries	376.5	293.5	332.5
Monopolies	1.0	7.0	45.0
Lottery	.1	.5	.5
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(a) Cash disbursements

Figures submitted by the Banca d'Italia on cash disbursements by the Civil Ministries in Puglia are very incomplete. They total only 30 million lire for December and 40 million lire for January, only 8% and 14% respectively, of the budget estimates for those months. The great incompleteness of these data is shown below:

Comparison of Estimates for Civil Ministries made by Minister of Finance with disbursements recorded by the Banca d'Italia (Puglia)

(thousands of lire)

Ministry	Dec 1943 Estimates	Dec 1943 Disbursements	Jan 1944 Estimates	Jan 1944 Disbursements
Finance	93,000	24,032	20,000	29,575
Justice	2,500	1,645	5,000	3,426
Foreign Affairs	1,000	2	1,000	2
Italian Africa	-	3	-	1
Education	7,000	2,223	13,000	3,937
Interior	100,000	992	55,000	1,434
Public Works	5,000	449	6,000	548
Communications	165,000	45	190,000	336

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Comperison of Estimates (Contd.)

Ministry	Dec 1943 Estimates	Dec 1943 Disbursements	Jan 1944 Estimates	Jan 1944 Disbursements
Agriculture	1,000	270	3,000	445
Industry and Commerce	1,000	56	500	108
Popular culture	1,000	-	-	-
Foreign Exchange	-	-	-	-
Total Civilian Ministries	376,500	29,717	293,500	39,81[illegible]

In addition to these disbursements, the Italian Government makes large disbursements grouped under the heading "pagamenti collettivi". This heading covers disbursements made by banks for the account of the Italian Government which are not charged to the books of the Ministry concerned until the entire transaction has been completed. For example, the pay roll for a given project would be turned over to a bank and disbursements on the pay roll would appear as "pagamenti collettivi" until all the workers had drawn their wages, perhaps several years later. The heading includes among other things, disbursements for the account of the civil Ministries. These disbursements totalled 490 million lire in December 1943 and 514 million lire in January 1944. Thus to the total known Ministerial expenditures of 40 million lire would have to be added an unknown part of undifferentiated expenditures totalling 514 million lire if true monthly cash disbursement figures for January were to be obtained.

(d) The accredimenti system

Under the present system the Minister of Finance signs "accredimenti" on authorizations for the Ministries to make expenditures. From the inception of the Badoglio Government to the end of December, the total of accredimenti issued was 1,535 million lire, 611 for the Civil Ministries and 924 for the Armed forces. These figures do not represent disbursements, however, since the accredimenti need not be used in the period in which they are issued, and, for the military forces, accredimenti need not be obtained before disbursements are made.

(e) It is sometimes thought that ACC can control Italian Government expenditures through its ability to provide or refuse AM lire to the Government. The experience in February when no currency advances were made clearly demonstrates that this is not the case. Specific control cannot be achieved because there is no direct relation between any particular expenditure and the advance of currency to the government. General control cannot be achieved

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(e) It is sometimes thought that ACC can control Italian Government expenditures through its ability to provide or refuse AM lire to the Government. The experience in February when no currency advances were made clearly demonstrates that this is not the case. Specific control cannot be achieved because there is no direct relation between any particular expenditure and the advance of currency to the government. General control cannot be achieved because total Government expenditures are only one of the factors which affect the cash position of the Banca d'Italia and, therefore, the necessity for making currency advances. With effective control of the money market and with popular confidence in the government, the return flow of currency to the Banca d'Italia through government revenues, sale of government securities, and growth of bankers' deposits at the Banca d'Italia should normally be enough to take care of the currency needs of the government. The provision by ACC of currency to fill the gap in the currency circuit is quite a different problem from that of expenditure control. Effective expenditure control must, therefore, depend upon direct methods.

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(f) The Expenditure Control Officer is submitting a complete report on Italian State expenditures, with recommendations for future policy, to the CFC.

2. New plan for expenditure control

(a) Sicily. The unreliable state of communications between the provincial capitals in Sicily and the Italian Government in Salerno make it obviously impossible to restore expenditure control to the peacetime pattern of centralization. The shortage of qualified Italian personnel make it desirable for ACC officers to continue for the time being some of their functions and to assist such Italian personnel as can be assigned to Sicily. The present political situation in Sicily makes it necessary that any regional expenditure office be established in such a way as to avoid an appearance of autonomy. With these three points in mind a plan for expenditure control in Sicily was developed by Finance Sub-Commission Headquarters and representatives of the ACC regional office in Palermo. This plan was presented to the Italian Government and agreement in principle was obtained. The details of operation were then worked out with the Italian administrative officials concerned and the necessary instructions drafted. In essence the plan provides that ACC personnel in Sicily will continue to function as in the past until 1 April 1944. Thereafter the Italian Government with a quasi-branch office in Palermo will operate the system now used by ACC with some modifications. These modifications provide for a monthly financial program for each of the agencies of the Government. The budget period is 1 April to 30 June. Monthly estimates and subsequent authorities to spend will be based on the appropriate financial programs. A central recording office for the Banca d'Italia figures is provided in Salerno where detailed records of past expenditure will be made available to the Italian Government. State aid to local governments will be channelled through Palermo, thus limiting the size of the financing problem.

(b) Mainland. For that portion of the mainland now under the Italian Government no instructions have been issued, but agreement has been reached that this area will be administered from 1 April under the procedure now in effect for Puglia. This should materially curtail the work of ACC in Region II. It was agreed that in this Region, as in Sicily, the forms used by ACC will be employed for the first three months to obtain information on which the Minister of Finance can base his budget for 1 July 1944 to 30 June 1945. With respect to the communal budgets for 1 January to 31 March 1944, which will be approved by the ACC regional staff, it was

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B. Revenues

1. Revenue stimulation

Trips were made to Sicily and Foggia and to parts of Region II by officers of the Revenue Sub-Section. Their purpose was to encourage the resumption of normal activities by the Italian tax offices and tax officials.

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A number of provinces were visited, and various problems were investigated. This procedure is considered effective, and it is intended that it should be continued throughout all liberated territory. Reports will be prepared by the visiting officers for discussion with the CFO, CRO, and appropriate Italian officials.

2. Tax revision

A program for increasing the State Revenues and improving the revenue system was further discussed. A preliminary memorandum was prepared, discussed with the CFO, and handed to the Italian Minister of Finance on 27 February 1944. The memorandum, a copy of which is attached as Exhibit "A", contains plans for

(a) emergency measures to increase the State Revenues by temporary duties,
and (b) initial steps to revise the Italian tax structure.

3. Monopolies

Tobacco formerly produced approximately 90% of the monopoly revenues; salt 5-6%. Monopoly receipts in the three months to 31 December 1943, compared with the corresponding period in 1942, show for the four provinces of Bari, Brindisi, Lecce, and Taranto an increase of about 50%, from 84 million to 123 million lire. The tobacco factories at Bari and Lecce escaped damage and continued to operate. Tobacco factories in Cava dei Terreni, Scafati, and Naples were not in continuous production. Large [illegible] of manufactured tobacco were seized by the Germans. The cigarette factory at Naples was wrecked by the enemy and now has only three machines in operation. Difficulties now being encountered are lack of transport to move leaf tobacco to factories, lack of cigarette and packing paper, and destruction or requisitioning by the army of a large proportion of the curing and drying warehouses. Transport is now being allotted as available. Cigarette paper has been ordered from the U.S., and machines are being repaired and put into operation where possible. The problem of requisitioning has not been fully met, but representations have been made to the Army.

Tobacco retail prices were increased as from 1 January 1944 by 100% and the Italian Government has proposed an increase of 70% in the purchase price of the 1943 tobacco crop. This proposal is being studied by the Finance Sub-Commission but no decision has yet been reached. The 1942 tobacco crop has not yet been fully absorbed.

4. Consumption tax

The consumption tax was in the past a major source of communal revenues, normally producing 40% to 50% of such revenues. This source of revenue has declined sharply, and is now 50% or less of what it was formerly Investigation indicates that this decline is due to shortages of commodities

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4. Consumption tax

The consumption tax was in the past a major source of communal revenues, normally producing 40% to 50% of such revenues. This source of revenue has declined sharply, and is now 50% or less of what it was formerly Investigation indicates that this decline is due to shortages of commodities (meat, gas, and electric power were principal sources of this tax), transactions in the black market, and the fact that the tax is assessed on a per quantum rather than an ad valorem basis. Further, the schedule of taxable commodities has not been revised for some time to take account of shifts in consumption habits and availabilities. A report on the consumption tax has been prepared, recommending higher rates on the old schedules (the maximum rates remained unchanged from 1932 to 1943, when a 10% increase was applied), inclusion of new items which are objects of present expenditure, and substantial revision of the collection machinery.

5. Taxation of Allied Forces by Italian Government

At the request of MGS, AFHQ careful consideration was given to the problem of preserving the principle that no Italian taxes shall be assessed against imports, purchases, or acts of the Allied Forces in connection with

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their official duties. It is believed that personal or unofficial activities, however, might properly be subjected to taxation. A detailed plan was prepared which proposed certification by Army officers making official purchases that such were in fact official purchases, thus allowing Italian vendors adequate protection against assessment of taxes on such sales.

This proposal was prepared for forwarding to AFHQ by Dr. Henry Grady, Deputy Vice President, Economic Section, ACC, under date of 24 February 1944. The approval of AFHQ has not yet been received.

6. Proposal for increasing alcohol distillation from native wine, subsidized by increased wine tax

A proposal was received from Region I that the surplus of wine in that Region might be utilized to enlarge the normal operations of Ente Distillazione Materie Vinose, which customarily buys wine at an artificial price from growers and sells it to distillers at a lower price for subsidized manufacture of alcohol. The proposed increase in alcohol output would entail an increase in the tax on wine. The matter was discussed with the Minister of Finance and it was agreed that sectional tax revision was to be avoided. The matter was closed, however, when the Industry and Commerce Sub-Commission, ACC advised on 1 March 1944 that the project was impractical and uneconomical owing to the existence of adequate stocks of the type of alcohol to be produced, to the scarcity of fuel for the distillers, and to the inferior grade of alcohol which would result.

7. Revenue Statistics

Comparative State revenue returns from all provinces in liberated Italy for the fiscal years 1942/43 and 1943/44 have not yet been received, but those provinces for which returns are available show the following results:

TOTAL REVENUE RECEIPTS (EXCLUDING CAPO X[a])

(millions of lire)

Province	Jan 1944[b]	Jan 1943[b]	Seven months ending Jan 1944	Seven months ending Jan 1943	% seven months ending Jan 1944 to seven months ending Jan 1943
Catanzaro	5	10	41	72	59
Matera	2	1	12	15	80
Bari	53	71	472	399	118
Brindisi	3	2	38	26	142
Lecce	5	4	57	45	126

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Lecce	5	4	57	45	126
Taranto	4	7	48	76	63
Foggia	2	8	51	86	59
Benevento	4	2	9	23	40
Naples	30	145	463	906	51
	108	250	1,191	1,648	72

[a] CAPO X represents revenue from sale of government securities and miscellaneous Treasury transfers.

[b] January is not a tax payment month; therefore figures have limited significance.

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As pointed out last month, tax collections are higher than last year in those areas that escaped the disruption of war, and very much below last year in other areas. Since the areas where war disruption was least are, as would be expected, disproportionately represented in the reports, the 72% figure given for total revenues in the seven months ending January 1944 as a percentage of the same period a year ago is unquestionably too high. The total figure would probably not run over 60%.

The breakdown by sources of the tax receipts from the same provinces given above is as follows:

(Amounts in millions of lire)

	Jan 15 ~~'44~~	Jan 1943	Seven months ending January 1944		Seven months ending January 1943		Column (3) as percent of (5)
			Amount	Percent	Amount	Percent	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Monopolies	40	144	437	36	685	40	63
Direct Taxes	14	7	411	33	384	22	107
Indirect Taxes	42	64	248	20	404	23	61
Lotteries	3	10	72	6	69	4	103
Manufacturers' Tax	6	12	52	4	82	5	63
Customs	.1	15	12	1	108	6	11
	105	252	1,232	100	1,732	100	71

Column (7) shows that direct taxes and lotteries are now yielding higher revenues than last year, while monopolies, indirect taxes, and the manufacturers' tax are yielding only about 60% of the revenue obtained last year, and customs are yielding almost nothing. Columns (4) and (6) show that, despite these differences in the yield of various taxes, the percentage of total revenues derived from each of the sources has not varied greatly.

C. Cash position of the Italian Government

No advances of currency were made to the Italian Government during February 1944. The Italian Ministry of Finance presented estimates of the Government's cash position for Puglia (less Foggia) for February on 8 February. No figures on the cash position in Regions I and II were available. The figures for Puglia are shown below in tabular form. No advance was requested by the Italian Government. The experience of the Banca d'Italia during the month was such that there was no need for us to make an advance.

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ESTIMATES OF CASH POSITION OF ITALIAN GOVERNMENT

FEBRUARY 1944

(Millions of Lire)

Estimated total cash expenditures of Italian Government in February (Military plus civil government in Puglia)		1,239
Less:		
Government receipts	189	
Currency available for use in Banca d'Italia at beginning of month in excess of minimum reserve	260	
Inflow of currency to Banca d'Italia through increased deposits, reimbursements of advances, etc.	330	
Payments made outside Puglia for which vaglia may be used	415	
Total resources to be subtracted		1,194
Net estimated needs of Italian Government for currency in February to be advanced by Allied Financial Agency		45

Discussions were initiated with the Ministry of Finance concerning a reconsideration of the currency reserve position for all of the territory restored to the Italian Government. Definitive results have not been attained but the problem is receiving active consideration, looking toward a net decrease or partial sterilization of the total amount of currency now outstanding.

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V. ACCOUNTING SECTION

A. Allied Financial Agency

1. Instructions were sent out outlining the procedure to be followed on the handing over of Regions I and II to the Italian Government. Such procedure will follow the lines laid down in telegrams from the Combined Chiefs of Staff as follows:-

(a) The books of AFA will not be closed but will be continued without break.

(b) A balance sheet of AFA will be prepared as at 10 February 1944 and will be subsequently revised to reflect transactions recorded later, but referring to periods prior to 10 February.

2. The books of AFA Region IV were opened and have since been kept up to date and a Balance Sheet as at 31 January 1944 prepared.

3. Consolidated accounts for all Regions as at 31 January 1944 were prepared.

4. The question of remittances from U.S.A., U.K. and other countries to private individuals in Italy was discussed with AFA and the accounting procedure agreed upon.

B. AMG/ACC Accounts

1. Instructions were sent to Fifth and Eigth Army Sub-Accountants as to which Regional Chief Accountant they should report.

2. All Regional Chief Accountants were instructed that on the change over of Regions from AMG/ACC separate Revenue and Expenditure Accounts were to be maintained for AMG and ACC.

3. Consolidated Revenue and Expenditure Accounts for AMG and ACC for the period to 31 December 1943, and for each individual month to that date, were prepar[illegible] Head Office books were opened and written up to record same.

4. Assistance was given to the Chief Accountant of Region IV in preparing his first AMG/ACC accounts.

5. A new Sub-Head of accounts for "Messing and Out-of-Pocket Expenses" was set up following on Administrative Order No. 2.

6. The Heads and Sub-Heads of accounts for AMG/ACC Expenditure were completely revised to reflect a simplification in the classification of such expenditure. Instructions and chart showing old and new classifications were sent to all Regions.

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(a) The books of AFA will not be closed but will be continued without break.

(b) A balance sheet of AFA will be prepared as at 10 February 1944 and will be subsequently revised to reflect transactions recorded later, but referring to periods prior to 10 February.

2. The books of AFA Region IV were opened and have since been kept up to date and a Balance Sheet as at 31 January 1944 prepared.

3. Consolidated accounts for all Regions as at 31 January 1944 were prepared.

4. The question of remittances from U.S.A., U.K. and other countries to private individuals in Italy was discussed with AFA and the accounting procedure agreed upon.

B. AMG/ACC Accounts

1. Instructions were sent to Fifth and Eigth Army Sub-Accountants as to which Regional Chief Accountant they should report.

2. All Regional Chief Accountants were instructed that on the change over of Regions from AMG/ACC separate Revenue and Expenditure Accounts were to be maintained for AMG and ACC.

3. Consolidated Revenue and Expenditure Accounts for AMG and ACC for the period to 31 December 1943, and for each individual month to that date, were prepared. Head Office books were opened and written up to record same.

4. Assistance was given to the Chief Accountant of Region IV in preparing his first AMG/ACC accounts.

5. A new Sub-Head of accounts for "Messing and Out-of-Pocket Expenses" was set up following on Administrative Order No. 2.

6. The Heads and Sub-Heads of accounts for AMG/ACC Expenditure were completely revised to reflect a simplification in the classification of such expenditure. Instructions and chart showing old and new classifications were sent to all Regions.

C. Supplies Accounting

1. (a) Accounting instructions and relative forms were drawn up in conjunction with the Public Health Sub-Commission.

(b) Instructions were issued to AMG/ACC Regional Chief Accountants as to monthly analysis to be submitted of the figures showing supplies purchased for export, supplies purchased for resale in the same Region and supplies purchased for resale in another Region.

(c) Instructions as to completion of the monthly returns were sent to all Regions.

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2. A reorganization of the Regional Supply Accounting was effected by assigning accountants to the Economics and Supply Division of each Region to act as supply accountants on the ESD staff. It was emphasized that the primary responsibility for the preparation of the Regional Supply Accounts lies with the Regional ESD. The officers so appointed were for the most part already fulfilling the functions of supply accountants, but figured on the staff of the Chief Accountant and not in the Regional ESD staff with the result that they had no official status in the Region or in the ESD.

3. The system of supplies accounting in Region III and in the Naples warehouse was thoroughly investigated and revised, the new system coming into force on 1 March. It was found that much work was required:

(a) to revise the system; and

(b) to prepare proper records of past transactions.

Two officers are at present working on (b) and a statement of stock movements for the period to 31 December has been prepared, and a statement for the month of January is in course of preparation. The various sales accounts are being investigated and past invoices, which were not priced owing to the absence of a price list, are now being priced.

4. A meeting was held with officers of the Economic Section on the future policy to be adopted for handling imported supplies. It was agreed that the Italian Government should be approached with a view to their forming an organization which would purchase all imports at the port of entry and would undertake their subsequent distribution and resale with such assistance and under such supervision as AMG/ACC considers necessary. A memorandum on this subject was written to Colonel Adams of the Economic Section. A meeting was also held with representatives of the Economic Section and of the Societa Magazzini Generali with a view to ascertaining whether they were willing and able to undertake all warehousing on behalf of AMG/ACC. The Magazzini Generali expressed themselves as willing to undertake this work and further discussions are in progress. It is hoped to combine the proposed scheme for the Magazzini Generali with the scheme for the proposed Italian Government organization.

5. Statements of stock movements and sales have been received from Region I for the period to 31 December 1943, from Apulia for the period to 31 January 1944 and from Region VI for the period to 31 December 1943. These statements have been reviewed. Region III is referred to in paragraph 3 above. No reports have yet been received from Region II, but the Regional Supply Officer has been given assistance and it is understood that reports may soon be expected. Discussions have been held with the Supply Accountants of Regions IV and V and AMG Fifth Army, and work is to be begun on [illegible] of their stock movements and sales.

6. An accounting officer from Sicily attended the ESD accounting school organized by Region IV and lectured on ESD accounting problems [illegible] Sicily.

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6. An accounting officer from Sicily attended the ESD accounting school organized by Region IV and lectured on ESD accounting problems experienced in Sicily.

D. Emergency Financial Assistance to U.S. and British Nationals

Forms for requests for assistance and receipts were designed in conjunction with AFA and instructions (not yet issued) were prepared for all Regions.

E. Italian Refugee Branch

1. Accounting instructions were prepared and issued to all Regions and AMG Fifth and Eighth Armies.

2. Personnel was loaned to the Refugee Branch to start their Naples records.

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F. Displaced Persons Sub-Commission

Draft accounting instructions were prepared and sent to the Displaced Persons Sub-Commission for consideration, but no reply has yet been received.

G. Local Purchases by Allied Armies

A form for use by the Allied Armies when purchasing supplies from civilians was designed. This form, which will serve as a voucher by which the civilian supplier will obtain payment from the Italian Government for supplies furnished to the Allied Armies, was passed to the Controller of Financial Institutions for further discussion with the Italian Government and the Allied Armies.

H. Accounting for Supplies issued by Armed Forces to Co-belligerents

Discussions were held with the Land Forces Sub-Commission and with MGS with regard to the Combined Chiefs of Staffs' instructions that ACC should account for supplies issued direct by the Armed Forces to co-belligerents. It was agreed that the Land Forces Sub-Commission should submit monthly consolidated reports to the Chief Accountant ACC showing the total imports received by Italian army depots. Issues to co-belligerents from Army depots should cease except for such issues as will be replaced in kind from Italian Army stocks and which would be accounted for between the Army depots and the Italian Army. Issues from Army depots to co-belligerents are however being made, and on instructions from AFHQ reports of such issues are being sent by Army depots to the Chief Accountant ACC. AFHQ therefore suggested to CCS that accounting for such issues should be handled not by ACC but by the Armies. CCS replied by instructions that priced lists of issues from all American depots should continue to be sent to and accounted for by ACC, but that instructions as to issues from British depots would be given by London. ACC have replied stating that whilst they can record priced returns from Army depots they cannot be responsible for checking returns, nor can they be responsible for seeing that all returns are received; they have therefore suggested that one consolidated report be submitted by the American Army for all issues. Instructions from London for dealing with British issues are awaited.

I. Railway records

Discussions were held with the Internal Transportation Sub-Commission on their proposed system for recording traffic handled in AMG territory.

J. Messing and Billeting Expenses

Further discussions were held with the Executive Officer regarding purchases of equipment, etc. for messes and billets and a letter was issued by the Executive Officer to all Regions further defining the limits of the authority of Regional Officers to authorise such expenditure.

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K. Petroleum Products issued by AMG for civilian use

The Chief Accountant discussed with the Petroleum Section AFHQ, the question of issues of petroleum products to civilians in forward areas where there is no CIP organization. It was agreed that Petroleum Section could, on the request of AMG, appoint a local CIP representative in any forward area who would be responsible direct to the Petroleum Section for accounting for petroleum products issued to civilians. Transactions prior to the appointment of such CIP representative would be accounted for by AMG.

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VI. CUSTOMS AND EXCISE

A. Field Survey

During February, officers of the Customs and Excise Sub-Section were engaged in making a field survey of the ports of entry of Italy in order to reactivate the Italian Customs Service. The results of this survey will be presented in the next monthly report of the Finance Sub-Commission.

VII. MONTHLY FINANCIAL REVIEW OF ITALY

In the course of its operations, the Finance Sub-Commission has been gathering information on financial developments in Italy. In the future, much more data will be available with the activation of a new office of coordination in the Banca d'Italia, which has, in cooperation with the Finance Sub-Commission, set up a system of financial reporting by the branches of the Banca d'Italia in liberated Italy. To present this material in usable form, the Finance Sub-Commission, beginning with February, is issuing a Monthly Financial Review of Italy. The Review will present the latest available statistical and other data on government financing, banking and monetary developments, other financial developments, and from time to time will include descriptive studies of the Italian financial system. Due to its length, this review is not incorporated in this report but is available for separate distribution.

A.P. Grafftey-Smith

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

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EXHIBIT 'A'

CONFIDENTIAL

MEMORANDUM ON METHODS OF INCREASING THE ITALIAN STATE REVENUE

The Italian State Budget has contained an excess of expenditure over income in every year since 1930-31 and it is clear that considerable increases in the Taxation income will be necessary, coupled with reductions in expenditure to enable a balance to be obtained in the future.

The present price movements which show a steady and increasing rise in the cost of articles will tend still further to increase the budget deficit as rises in expenditure will take effect immediately whereas the revenue will not rise correspondingly.

The most prominent weaknesses in the Italian State tax structure are:

(a) the few declarations of income received
(b) the fixing of liability for both the income tax, the war profits tax, the turnover tax and the total income taxes on estimated figures in a very large percentage of cases. - only limited companies and societies render accounts.
(c) the long time taken over the revaluation of lands and buildings resulting largely from the complicated methods of determining the value.
(d) the delay which takes place in the collection of duties actually assessed.
(e) the weakness of the official powers to recover unassessed duty and penalites against taxpayers who are found to be inadequately assessed.

In consequence of the above the system is particularly slow to respond to rises in turnover and profits at a time when prices are rising.

The possibility of a serious and increasing depreciation of the currency may make it necessary, in conjunction with other measures to reduce the amount of currency in circulation, to institute an emergency taxation scheme designed to make immediate increases in taxation yield possible.

The suggestions in this memorandum are accordingly presented under the two main heads.

(a) for temporary changes aimed at an immediate yield of duty
(b) for a general revision of the Italian tax Structure.

This memorandum does not include action which is being taken, particularly on the forward areas to revive the existing tax machinery, which has been badly damaged by the war, and to bring the collection of taxes to the maximum possible under the existing laws.

The fact that the suggestions have been classified in the above two ways does not imply that the emergency measures will wholly precede the matters suggested for the gradual revision. The former whilst including certain points of a generally revising nature are primarily those which, with preparation made beforehand can be used to bring rapidly into the Treasury money in general circulation. The suggestions are given in detail in the appendices and are summarized as follows:

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A. - TEMPORARY EMERGENCY MEASURES.

The object of these suggestions is to formulate plans for special action designed to be put in force rapidly and, even at the loss of other important considerations, to reflect the changes in the price level and to produce an immediate income to the State.

The first essential of any improvement in the immediate yield of taxation is to obtain a hold on the persons who are the first to benefit on a rise in sales prices, i.e. the retail traders. It will accordingly be necessary to institute either in conjunction with the issue of ration cards or by some other drastic means a registration of all retail traders.

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The principal suggestions included in this program are therefore:

(a) a scheme to ensure a registration of all traders and a declaration of turnover.
(b) a scheme to obtain the latest information about rents;
(c) to accelerate the present assessing machinery for the War Profits Tax.
(d) the immediate abolition of the tax exemptions given to large families.
(e) the abolition of the exemption given to buildings erected within the last 25 years.
(f) to levy additional duties as follows:
  (1) a levy of 2½ or 3% on the last 3 months declared turnover.
  (2) a levy of 3% on the rents paid in the last 3 months.
  (3) a tax on the income from government securities.

B. - SUGGESTIONS FOR REVISION OF THE ITALIAN TAX SITUATION.

The object of these suggestions is to lay the foundation upon which a general revision of the Italian tax situation can be based. Italy consists very largely of small businesses carrying on a cash trade for which proper business records are not kept and in consequence most of the income subject to direct taxation is estimated and until recent years the system contemplated the settlement of a figure which would remain in force for more than one year.

The Italian taxpayers are not required to make every year a full statement of their correct income, but are required only to report changes. This absence of annual returns from all taxpayers deprives the Revenue officials of much useful information.

It is accordingly considered that the first steps in any reform must be to clarify the basis of assessment for the income tax and introduce a system of annual declaration of income and the principal suggestions are accordingly

(a) the clarification of the basis of assessment of income.
(b) the introduction of an annual declaration of income.
(c) an improvement in the machinery for making assessments on taxpayers who have been inadequately assessed.
(d) a strengthening of the penalties powers against taxpayers who make no returns of income or incorrect returns.
(e) a new tax on the excess of rents actually received over the existing assessments.
(f) a revision of the tax on total incomes with a steepening of the effective rates.
(g) the abolition of the bachelors tax by stages.

Subject to the necessity of having to interpose certain emergency measures the general order of priority is approximately as follows as certain steps can of course be preceeding contemporaneously:

(a) The War Profits Tax
(b) the abolition of exemptions
(c) the clarification of the basis of assessment for income

(f) to levy additional duties as follows:
(1) a levy of 2% or 3% on the last 3 months declared turnover.
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(a) The War Profits Tax
(b) the abolition of exemptions
(c) the clarification of the basis of assessmnet for income.
(d) the annual declaration of all income.
(e) the changes in the machinery for making additional assessments.
(f) the strengthening of the penalties.
(g) the new tax on Interest on goverment bonds.
(h) the new tax on increased rents.
(i) the revision of the tax on total incomes.
(j) the revision of the inheritance taxes.

A. F. CROSS.
Lt. Col.
Chief Revenue Officer
Finance Sub-Commission.

20 Feb./44.
AFC/ef

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HEADQUARTERS
ALLIED CONTROL COMMISSION
(Rear Eschelon)
APO 394

Confidential
Auth: C. Fin. ACC
Initials
Date 27 Feb. 44

APPENDIX "A"
TEMPORARY EMERGENCY MEASURES

1/ Revision of lists of taxpayers.

In conjunction with an issue of ration cards, or some similiar operation which would force all persons to register, every head of a family, registering would be required to furnish:

(a) A Statement of:
- (I) His name and address.
- (II) The number of children and dependents in his household for whom he was applying for ration cards.
- (III) The actual rent paid for the last 3 months.
- (IV) The name of the person receiving the rent and relationship (if any) to him.

(b)
- (I) If an employee - his work card
- (II) If in business - a statement showing:
  - (I) His name and address.
  - (II) His trade or business.
  - (III) The number of his employees - with name and age.
  - (IV) A statement of his actual sales for the preceeding 3 months.

2/ War Profits Tax (sui maggiori utili relativi allo stato di guerra)

The assessments on the War Profit Tax are particularly in arrear partly because although the tax was first chargeable for 1939 the law was not instituted until July 1940, and a considerable time elapsed before the administrative instructions were completed and issued. Some idea of the magnitude of work and duty in arrear is given by the following figures for the assessment district of Naples as at 31 Dec. 1943.

Year	Settled cases entered on the rolls.		cases not yet settled	
	NUMBER	AMOUNT OF DUTY	NUMBER	AM'T OF DUTY ESTIMATED
1939	643	8.703,714	754	26,978.000
1940	681	13,793,246	814	60,894,000
1941	153	3,202,684	677	60,286,000

Assessment rolls for this tax are made as for other taxes twice a year by Dec. and June, and the tax is then paid in six bi-monthly installments commencing in February and August respectively. In view of the importance of this tax and the comparative smaller number of assessments, it is suggested that an entirely new and seperate assessing and collecting system should be

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The new system wouldprovide:
- (a) For assessments to be made either weekly or monthly and the procedure for making assessments and collecting the duty to be revised.
- (b) For powers to make estimated assessments at any time subsequent to 6 months after the end of each respective assessable accounting period.
- (c) For all duty to be payable within 1 month of the date of making the assessment.
- (d) For the settlement of payments on account where the final total liability was not agreed.
- (e) For interest to be paid on all tax not paid by the due date.
- (f) For administrative instructions to be issued to ensure that assessments in respect of all unassessed periods at present in arrear are made by specific dates.

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3/ Taxation exemptions to large families.

Italian families which have seven or more children are entitled to complete exemption from certain direct taxes, such as, family tax, household tax, cattle tax, school tax, and the tax on patrimony.

In addition, where the income is under Lit. 100,000 such families receive complete exemption from the tax on total income and other taxes and where the income is over 100,000 Lire, to an exemption of 100,000 lire of income is spread proportionately over the various classes of Richezza Mobile Terreni, Fabbricati, etc, including the relative communal and provintial additional taxes (Sovrimposte).

Families which have more than two children also receive certain exemptions from stamp duties on inheritance.

These exemptions were introduced under the Fascist regime as part of the policy of providing bonuses for large families and it is suggested that all these exemptions should be abolished.

4/ Land and House Taxes (Terreni and Fabbricati)

The Terreni assessments were revised on the basis of values in 1937-39 but it appears that in certain communes the work was not completed and the old values were simply multiplied by four. The new assessments represent from sample statistics an increase of 5 - 6 times the old ones, and came into force from 1 January 1943. The rates of State tax were reduced from 10% to:

1943	-	3%	1945	-	7%	1947	-	10%
1944	-	5%	1946	-	9%			

The Fabbricati assessments are in progress of revision but this work will not be ready for use in the rolls commencing 1 Jan/45, as intended. The rents on these properties have been generally blocked, but in many cases it is known that present rental values are in excess of the valuation which was obtained by an automatic percentage increase in the then existing values.

It must also be noted that the State taxes are only a small part of the total burden on these assessments. The Compartimental Inspector at Bari estimates the total burden as 58% on Terreni (State 5%) and as 53% on Fabbricati (State 10%) for 1944, exclusive of the imposte complementare.

In order to obtain the latest information as to rents and to obtain an immediate payment of additional tax on these properties it is suggested that every person rendering a declaration of residence under para 2 (a) above would pay a special tax of 3% of his last 3 months rent which he would be entitled to deduct from his landlord the next time he pays rent.

In the case of persons who own their own houses a sum equal to 5% of their Fabbricati assessment would be paid at a similiar time.

In the case of farmers owning their land a sum equal to 1% of their Terreni assessment would be paid.

It is also suggested that buildings now excluded from the rolls owing to having been built less than 25 years should be immediately assessed.

5/ Tax on Interest from Government Securities.

Italian State bonds carry interest in the majority of cases at rates between 3½% and 5% and are at present exempt from taxation. It is suggested

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4/ Land and House Taxes (Terreni and Fabbricati)

The Terreni assessments were revised on the basis of values in 1937-39 but it appears that in certain communes the work was not completed and the old values were simply multiplied by four. The new assessments represent from sample statistics an increase of 5 - 6 times the old ones, and came into force from 1 January 1943. The rates of State tax were reduced from 10% to:

1943	-	3%	1945	-	7%	1947	-	10%
1944	-	5%	1946	-	9%			

The Fabbricati assessments are in progress of revision but this work will not be ready for use in the rolls commencing 1 Jan/45, as intended. The rents on these properties have been generally blocked, but in many cases it is known that present rental values are in excess of the valuation which was obtained by an automatic percentage increase in the then existing values.

It must also be noted that the State taxes are only a small part of the total burden on these assessments. The Compartimental Inspector at Bari estimates the total burden as 58% on Terreni (State 5%) and as 53% on Fabbricati (State 10%) for 1944, exclusive of the imposte complementare.

In order to obtain the latest information as to rents and to obtain an immediate payment of additional tax on these properties it is suggested that every person rendering a declaration of residence under para 1 (a) above would pay a special tax of 3% of his last 3 months rent which he would be entitled to deduct from his landlord the next time he pays rent.

In the case of persons who own their own houses a sum equal to 5% of their Fabbricati assessment would be paid at a similiar time.

In the case of farmers owning their land a sum equal to 1% of their Terreni assessment would be paid.

It is also suggested that buildings now excluded from the rolls owing to having been built less than 25 years should be immediately assessed.

5/ Tax on Interest from Government Securities.

Italian State bonds carry interest in the majority of cases at rates between 3½% and 5% and are at present exempt from taxation. It is suggested that this exemption should be withdrawn and that income from these bonds should either be included in category 4 of the Richezza Mobile taxation, where it would now be subject to taxation at 24% or that a special tax should be levied on this interest at 25%. It is also proposed that the interest should be included in the general tax on total income (Imposte complementare).

6/ Turnover Tax (Imposte sul'entrata).

This tax superceded a sales tax (Tasse sugli Scambi) in 1940, which tax was levied at various percentages by means of stamps affixed to invoices and applied to all sales other than sales to the public by a retailer. The new tax is wider inscope and is aimed at the total turnover ie; the gross sales of all businesses and sums received for services by the professions, by transportation agencies and by barbers etc.

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~~It is the largest item on the revenue estimates for 1943-44 at 5900 million.~~

The new tax is principally assessed in the retail trade by an acordo under which an estimated turnover is got by applying a coefficient to the income tax (Richezza Mobile) assessment on the individual business or other activity. These coefficients which are determined generally for each separate trade by the trade corporations at Rome each year are used by the officials of Indirect Taxation to convert the net profit figures of the Richezza Mobile assessment into a gross turnover figure, and are further modified by reference to the population of the commune in which the business is situated and by reference to the number of employees. The Richezza Mobile assessment is however itself normally obtained by the officials of Direct Taxation by estimating the sales and applying a percentage figure to get the estimated net profit, or by basing it on so many lira per quanta of the different types of goods produced. It is clear that the turnover as obtained for the turnover tax has gone though so many stages of estimate that it is unlikely to be accurate.

Businesses, etc, which are too small to have a Richezza Mobile assessment pay a fixed duty depending on the population in the commune.

Certain specific rates are levied per vehicle or boat, on taxis, gondolas and ferries. Other transportation agencies are charged in various ways on the actual tickets issued. Those trades not adopting the 'acordo' method pay by means of stamps, or for large sums by direct payment of cash.

The rates of duty on turnover was 2% increased to 3% as from 1 July 1943.

In Dec.1943 the Italian government passed a law in the four provinces providing that taxpayers in a large number of types of trades should in Jan. 1944 declare their actual turnover for 1943 and pay duty thereon instead of by the 'acordo' method and for other trades the 'acardo' of 1943 was continued in force for 1944. This measure is partly experimental and the general position is that the tax had become really a form of license duty except for the big businesses run by companies and the manufacturing and wholesale trades.

In order to provide some up to date check on the existing turnover figures and to provide immediate revenue it is proposed that every person in business would pay a special turnover tax of 2 – 3% on the total of his sales for the past 3 months.

7/ Income Tax on Moveable Wealth (Richezza Mobile) on Total Income(Imposte Complementare) and on patrimony (patrimonio).

The general opinion is that the existing assessments for these taxes are low and do not reflect the recent profit and value figures. It is impossible to estimate the extent of this underassessment which will undoubtedly differ in the various types of trades and also for the individuals in that trade. Suggestions have been received from certain Italian officials that the assessments on certain classes of the Richezza Mobile should be doubled or quadrupled. It is however thought that any such action would necessitate giving further facilities for appeal and might make more appeals and work than could be handled in a short time.

It is accordingly suggested that if it is necessary to raise further taxes rapidly from these taxpayers, who will already have been caught by the other additional taxes suggested, that the best action would be to accelerate the date of payment of the present instalments on the rolls.

8/ Death duties

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8/ Death duties

These duties which were doubled in 1940 are still generally on a low scale. They are, however, extremely complicated and the differences in duty, so far as they are affected by consanguinity, are very marked. It would be practicable to make an arbitrary increase in the rates but this action would not make any large immediate contribution to the revenue.

It is accordingly suggested that these taxes be revised in conjunction with the general revision of the tax structure.

APPENDIX "B"

PROPOSALS FOR THE REVISION OF THE ITALIAN TAX STRUCTURE.

General

1/ The Italian tax system as at present existing contains 15 seperate direct taxes and 32 indirect taxes.

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The direct taxes are estimated to produce 27.6% of the total State Revenue excluding Capital movements for the year 1943-44 and the indirect taxes to produce 27.9%.

The multiplicity of taxes is caused partly through the difference between permanent and temporary taxes, the latter being those which have been introduced since the various "emergencies". Several of these are called seperate taxes and are based on the same assessable figures and are obtained by levying increased percentages on the base or by additional percentages on the tax.

Italian officials themselves admit that the system is complex and designated at least in part to make it very difficult for the taxpayer to know how much tax he does in fact pay.

With a view to an increase in administrative efficiency and a reduction of work, it is considered that whereever possible taxes which are analagous should be amalgamated.

2/ The system also includes several special taxes and exemptions introduced for political or special economic reasons. Examples are the seperate taxes on bachelors, the exemptions given to families of 7 or more children and the intensive exemptions in respect of properties erected within the last 26 years (25). It is considered that these over-emphasized adjustments should be eliminated as seperate entities even if some smaller amelieration of of taxation is continued in some cases.

3/ Italy generally is a country of the small one man or family business, and this is particularly true in the South, and the latest available statistics of the Kingdom show that for the year 1938 there were only 16,916 assessments on companies and Societies totaling Lit. 3,541,917,673 average Lit. 209,383 and 1,024,196 assessments on private businesses under Category B of the Income Tax on Moveable Wealth which totalled Lit. 6,439,888,407 giving an average of only Lit. 6287 per assessment. The true gross average private income assessed would be greater than this as the small income allowances are deducted before entering the assessment in the roll, but as the maximum allowance in 1938 was 1,000 on the minimum income of Lit. 2,000 and the allowances ceased when the income exceeded Lit. 2,500 the maximum average gross is unlikely to have been more than Lit. 7,000. Sample statisitcs seen for later years indicate that this figure has not greatly increased.

The large number of small businesses and the to some extent consequential absence both of business accounts and accountants to prepare such accounts are probably the reasons that Italian direct tax assessments of all kinds are generally estimated. This system is inherent in the Italian idea under which until 1942 the assessment could not be varied until 2 years after the year in which the ascertainment was made. In connection with the War Profits Tax an attempt is still made to fix an Income Tax assessment on the normal profits of the business as distinct from the War Profits tax based on the excess of the actual profit over the pre-war normal. Legislation was however enacted in 1942 allowing for normal revisions of the Income Tax assessments and through an adjustment in the War Profits tax the Income Tax has been charged on the whole profit of 1941 and subsequent years.

4/ Largely in consequence of the above facts the Italian revenue staffs do not contain many personnel of much ability. The best senior officials are

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4/ Largely in consequence of the above facts the Italian revenue staffs do not contain many personnel of much ability. The best senior officials are however capable of carrying out the more accurate and better class of work. It is understood that an attempt was made several years ago to improve the stantard of recruits into the finance service, but that it did not proceed to full effect.

5/ Having regard to the above general points it will be necessary to proceed carefully in revising the tax structure and accordingly the following proposals are made as a basis for a general improvement which whilst giving some immediate benefits will also be steps on the way to a more complete overhaul of the system

6/ - <u>REMARKS.</u>

The present system whereby income returns are only required for any specific tax when the income commences and when a change in circumstances has occured, results in very few returns being obtained and those only when reductions are claimed.

This fact materially restricts the information available to the Revenue officials. Even though a large part of the returns which will be received under an annual compulsory return system will be estimated and inaccurate the accumulation of facts and information will enable the officials to keep more closely in touch with the changes of profits of the individual businesses and with the incomes of the individuals. It is accordingly suggested that every taxpayer be required to make a return of his income annually, that a new form of declaration should be prepared and that the forms for this purpose should be issued to the taxpayers annually by the Revenue officials.

7/ - INADEQUATE ASSESSMENTS AND PENALTIES.

The present proceedures for correcting insufficient assessments are somewhat combrous and inadequate and this feature coupled with the relatively low penalties which can be obtained further handicaps the officials in obtaining the full duties due.

When an official discovers that the income for previous years is inadequately assessed he can revise the assessments for the past four years for the Imposte Richezza Mobile and generally for two years for the other principal taxes.

Penalties are only incurred for the annual direct taxes in respect of

(1) a failure to declare a new income

(11) a declaration of a change in income in which the income is understated by more than 25%.

It will be impossible for the existing staff even if considerably augmented in numbers and capabilities to review and bring up to-date all the assessments in one year and this will mean that as cases are gradually reviewed it will constantly be found that assessments for previous years were inadequate.

It is therefore suggested

(a) that for the direct taxes the basis of assessment should be clearly defined as the actual income of some definite period.

(b) that the powers of making supplementary assessments for the past years should be extended to six years.

(c) that the machinery for making additional assessments should be simplified.

(d) that the liability to incur penalties should apply to any failure to render every year a full and accurate return and should be extended to cover the six years prior to the current year of assessment.

8/ - INCOME TAX ON MOVEABLE WEALTH - RICHEZZA MOBILE.

The principle weakness of this tax lies in the failure except in the case of companies to clearly define the assessable income as the actual income of any particular period. This matter has been referred to in the general remarks and in the proposals in paras 6 and 7 relating to returns and the powers for supplementary assessments and penalties.

It will be necessary before any real increase can be affected in the number of assessments based on a real income and profit figures for the legal position with regard to statutory books to be improved.

It is therefore suggested that the only immediate action with regard to this tax would be to define clearly the basis of assessment and then by admin-

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It is therefore suggested that the only immediate action with regard to this tax would be to define clearly the basis of assessment and then by administrative action, based on the new returns referred to in para 5 (a) start the revision of the larger assessments.

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9/ - TAX ON INCREASES IN RENT.

The existing assessment on buildings are as already mentioned in para 4 (e) of Appendix A very considerably out of date and it is doubtful whether any adequate revision is possible for existing circumstances for some time. Moreover the present restrictions on raising rents may be revised in the future from time to time and it would not be possible under a revaluation scheme really to obtain the appropriate taxation from these individuals actually in receipt of additional unassessed rents.

It is accordingly suggested that a new tax be imposed on the excess of the net rent actually received over and above the amount of the existing assessment on the building.

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Deductions would be given in ascertaining the net rents for expenses necessarily incurred on similiar lines to those already given in making the Fabbricati assessment. It is also suggested for the purpose of simplicity that this tax should not include a provincial or communal sovrimpost but should be levied at a flat rate of at least 25%. Declarations of rents received would be required from owners, these to be compared with the returns received under the emergency scheme for a general tax on rents.

10/ - TAXES ON TOTAL INCOME (Imposte Complementare and Imposte sul redditi superior a Lt.10,000)

The total income tax (imposte complementare) is at present levied on all incomes which exceed Lire 6,000 in total, the taxable amount being obtained after deducting taxes paid under Richezza Mobile etc, life insurance premiums and interest on loans. A deduction is made for each child, of the twentieth part of the income, but not exceeding Lit 3,000 for each child. Tax is then levied at rates which progress slowly by centissini from 1% to 10%. A seperate tax has been added during the war whereby for incomes over Lit 10,900 a further tax is levied as follows:

Income	10,000 - 30,000	- additional	25% of existing imposti Comple	
"	30,001 - 174,000	- "	50% " " " (mentare.	
"	174,001 - 484,000	- "	75% " " " "	
"	over 484,001	- "	100% " " " "	

Even with these war additions the tax is still not heavy as the maximum on incomes exceeding 1 million lire is only 20% (10% plus 10%)

As an indication of the relative numbers of taxpayers in the different groups and of the total incomes in each group the following tables for the commune of Naples for the principal rolls for 1944 are given.

Imposte Complementare

No. of Taxpayers.	Range of Net Incomes Included	Rate of Tax Applicated.	Total Income Charged in each Class.	Tax Charged.
20,521	3,000 - 17,000	1.- % - 2%	193,057,467	
6,859	17,200 - 48,000	2.- % - 3%	169,681,365	
838	48,500 - 99,000	3.01% - 4%	54,555,384	
185	100,000 - 174,000	4.01% - 5%	23,885,000	
67	175,000 - 280,000	5.01% - 6%	13,349,200	
22	280,000 - 410,000	6.01% - 7%	7,090,000	
8	410,000 - 570,000	7.01 - 8%	3,755,000	
1	580,000 - 770,000	8.01% - 9%	690,000	
1	770,000 - 1,000,000	9.01% - 10%	2,500,000	
45		Enti 1% (categ. D)	10,664,394	
28,313			539,227,810	12,240,696

War Additional to Imposte Complementare

No. of Taxpayers	Range of Net Income Included.	Rate of Tax Applicated.	Amount of Additional Tax.

All incomes which exceed Lire 6,000 in total, the taxable amount being obtained after deducting taxes paid under Richezza Mobile etc, life insurance premiums and interest on loans. A deduction is made for each child, of the twentieth part of the income, but not exceeding Lit 3,000 for each child. Tax is then levied at rates which progress slowly by centissimi from 1% to 10%. A seperate tax has been added during the war whereby for incomes over Lit 10,900 a further tax is levied as follows:

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67	175,000 –	280,000	5.01% –	6%	13,549,200	
22	280,000 –	410,000	6.01% –	7%	7,090,000	
8	410,000 –	570,000	7.01 –	8%	3,755,000	
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28,313					539,227,810	12,240,696

War Additional to Imposte Complementare

No. of Taxpayers	Range of Net Income Included.	Rate of Tax Applicated.	Amount of Additional Tax.
12,063	10,000 – 30,000	25%	1,092,134
2,376	30,001 – 174,000	50%	2,154,644
87	174,001 – 484,000	75%	975,672
5	484,001 – and over	100%	427,830
14,453			4,610,280

It is proposed that these two taxes should be merged into one new tax on total income and that the rates of duty be graded up more steeply than at present.

The present tax becomes chargeable on net incomes in excess of Lit 3,000 and it is suggested that this lower limit should be raised and that different allowances should be given to married and unmarried men and the seperate tax on bachelors be omitted.

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10/ - Bachelor Tax (imposti sui calibi)

This tax consists of a fixed sum payable according to age and varing between 85 and 155 lire per bachelor and a variable proportion which is equal to the tax on total income, (imposte complementare). The tax is estimated to yield 210 million for 1943-44 against a total yield of 5700 million for Richezza Mobile. It is part of the Fascist scheme of encouraging the large family and certainly imposes a heavy discrimination against bachelors. It is suggested that as a first step the variable portion should be abolished and the whole tax eventually cancelled and variable allowances for single and married persons be given in the revised total income tax.

11/ - TURNOVER TAX (Imposta sul'entrata)

This tax has already been described in Appendix A para 6 and in its present form as actually administered it clearly bears little resemblance to a tax on actual turnover. There are very great administrative difficulties as the Italians have themselves found in obtaining proper turnover figures when the tax is extended to include the retail shops and especially when it includes money received for services.

It will probably be necessary to propose considerable amendments to this tax but the actual proposals should await the results obtained from temporary measures referred to in Appendix A.

12/ - TAXES LEVIED FOR THE COUNCIL OF CORPORATIONS AND THE ENTI COMMUNALE DI ASSISTENZA.

The small additional levy on certain existing types of income in favor of the Provincial Corporations Council should be abolished. The various small additional sovrimposts levied in favor of E. C. A. and used to provide relief to the needy should be abolished as soon as arrangements can be made to finance this expense from the general state funds. It is suggested that the abolition of these small duties be made at the same time as rates are raised on other taxes.

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MONTHLY FINANCIAL REVIEW OF ITALY

February 1944

A. INTRODUCTION

Beginning with this month's "Review", the Finance Sub-Commission intends to present every month a review of current financial developments in Italy. In cooperation with the Italian Government, a system of financial reports to be furnished by the Banca d'Italia in each province has been developed. This information, when it begins to arrive, should enable us to present a much more complete picture of the financial situation. Due to slowness in communications, lack of personnel, the data, certainly at first, will be inadequate and not as up-to-date as we would wish it to be.

In addition to current financial statistics and analysis and other information affecting finance, from time to time we will present factual studies on the workings of the Italian financial system which will embody the information that we have secured in the course of our operations. This month we present a brief description of the Italian public debt structure with a fuller discussion of the only type of government security now being issued: Buoni del Tesoro Ordinari.

B. FINANCIAL STATISTICS

1. Government "Deficit" in January 1944.

a. During January, the various regions still continued to function as separate entities. We have, therefore, a separate government deficit in King's Italy (Puglia less Foggia), and in each of the AMG Regions. For this month, there is no single government deficit as such.

Furthermore, forced to rely as we are on the figures of the State account chopped up by provinces and kept as a separate entity at the provincial Banca d'Italia branches, the best that we can do does not give a close approximation of the real deficit of the state. The Banca d'Italia figures include bookkeeping transfer figures on both the Entrata (receipts) and Uscita (disbursements) sides of the ledger. They are, in addition, subject to all of the disadvantages of disbursement figures, in general. There are other difficulties, also. Still, these are the only figures we have to work with.

From our viewpoint, there are three separate statistical tables that we need to have, showing:

(1) Total expenditures, total revenues and "deficit".
(2) How the "deficit" was financed.
(3) How the Banca d'Italia financed its advances to the State.

We do not yet have even in outline this information on the other regions of Italy outside of Puglia (less Foggia).

b. Puglia.

5,137

In Puglia (less Foggia, that is, the whole of King's Italy to 11 February 1944) the excess of payments over receipts on State account was 1,137 million lire for January.

The government deficit [illegible] by (a) an increase of

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b. Puglia.

In Puglia (less Foggia, that is, the whole of King's Italy to 11 February 1944) the excess of payments over receipts on State account was 1,137 million lire for January. 5/37

This government "deficit" was met principally by: (a) an increase of 591 million lire in the credit given by the Banca d'Italia to the state, (b) by using as an offset an increase of 314 million lire in the balances of the various state and semi-state institutions with the Banca d'Italia, and (c) an advance of 200 million lire by AMFA to the government. There was also a net increase of 32 million lire in the investment in Buoni del Tesoro ordinari. The Banca d'Italia secured funds to meet its advances to the State through an inflow of current account deposits, by paying for state expenditures in other regions by the issue of vaglia (and so shifting a part of the central government burden to other branches), through the inflow of currency from a great variety of banking transactions, and by a net in-flow of funds from repayment of advances. As a result of all of these factors, the Banca d'Italia took care of its advances to the state and increased its cash holdings by 34 million lire during the month.

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TABLE I

Italian State Account, Banca d'Italia, Puglia (less Foggia)
January 1944
(In millions of Lire)

(1) "Deficit"

Total State Uscita (Out-Payments) less B.T.O.	1,228	
Total State Entrata (In-Payments) less B.T.O.	91	
State "Deficit"		1,137

(2) How the State "Deficit" was Met

Increase in credit of Banca d'Italia to State	591	
Increase in Contabilita Speciale Accounts	314	
Advance by AMFA to government	200	
Net receipts from B.T.O.	32	
Total		1,137

(3) How the Banca d'Italia financed its Advance to the State.
January 1944

Increase in deposits on current account with the Banca d'Italia	279	
Increase in Vaglia Cambiari issued	173	
Miscellaneous transactions	140	
Net in-flow of funds from advances	33	
Total in-flow of funds		625
Less increase in cash on hand during January		34
Total of advance to State		591

c. Sicily.

Sicily is a special case due to the fact that the Banca d'Italia was not operating until the middle of December. AMFA, therefore, was the sole source from which government deficits could be financed. During January, a total of 471 million lire were approved in advances by AMFA to cover the deficit of the State, state bodies, provinces and communes.

d. Other Areas.

TABLE II

Italian State Account
Banca d'Italia
January 1944

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		1,137

(2) How the State "Deficit" was Met

Increase in credit of Banca d'Italia to State	591	
Increase in Contabilita Speciale Accounts	314	
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Net receipts from B.T.O.	32	
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d. Other Areas.

TABLE II

Italian State Account
Banca d'Italia
January 1944
(In millions of Lire)

(1) Deficit	Naples	Luccania	Calabria	Salerno	Foggia
Total State Uscita (Out-Payments) less B.T.O.	285	53	170	53	19
Total State Entrata (In-Payments) less B.T.O.	33	2	14	10	3
State "Deficit"	252	51	156	43	16

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(TABLE II con't.)

(2) How State "Deficit" was Met.	Naples	Lucania	Calabria	Salerno	Foggia
Decrease in balance to credit of State with Banca d'Italia	(1)	(1)	(1)	43	16
A M F A	(1)	50	75	0	0
Increase in Contabilita Speciale Accounts	(1)	(1)	(1)	5	
Investment in B.T.O.	9	-1	-4	-5	(2)
Total				43	16

(1) No information.
(2) Less than 500,000 lire. 400,000 lire excess of payments of B.T.O. over receipts.

2. Investment in Government Securities:

a. Peyments on matured and maturing government short-term notes, Buoni del Tesoro ordinari, were resumed around the end of 1943 in Liberated Italy (20 December in Salerno, 1 January in most areas) outside of Puglia and Sardinia where service had never been interrupted. In the months just prior to our occupation, government disbursements on account of B.T.O. were far exceeding receipts. Now that service has been resumed under Allied occupation, there has been a net excess of investment over disbursements in the area on which we have information (three-fourths of Liberated Italy). Palermo, Puglia (less Foggia) and Naples account for the net investment, in the other provinces the excess of disbursements still continues.

TABLE III

Investment in Buoni del Tesoro ordinari
January 1944
(In millions of Lire)

AREA	B.T.O. ISSUED (Net receipts)	B.T.O. PAID	NET INVESTMENT DURING MONTH
Palermo	170 *	56	114
Sicily, less Palermo to 20 January	103 *	121	- 18
Puglia, less Foggia	132	100	32
Calabria	16	20	- 4
Lucania	8	9	- 1
Salerno	6	11	- 5
Foggia	5	3	2
Naples	118	109	9
Avellino	3	4	- 1
Total of above			

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Total

43 16

(1) No information.
(2) Less than 500,000 lire. 400,000 lire excess of payments of B.T.O. over receipts.

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Salerno	6	11	- 5
Foggia	5	5	-
Naples	118	109	9
Avellino	3	4	- 1
Total of above	561	435	126

* Nominal capital.

b. We have only data from Naples and Salerno on the types of maturities of B.T.O. being purchased. In Naples, the information indicates that compared to a year ago, investors show a decided preference for shorter maturities. Last winter, around 90 per cent of the B.T.O. purchased were of the 10 to 12 months maturities. In January of this year, almost half of the B.T.O. purchased were of 6 months or less maturity, 42 per cent being of 3 months or less. In Salerno, which is a comparatively financially-unsophisticated provincial town, practically no B.T.O. with maturities under one year are ever sold and this condition has not changed. This may also account for the fact that there was net dis-investment in B.T.O. in Salerno. Investors are reluctant to invest in B.T.O. of a year's maturity and are not conscious of the choice of shorter maturities.

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3. Deposits with the Banca d'Italia.

(We only have reports on the Banca d'Italia in Puglia (less Foggia).)
During January 1944 bankers' deposits in interest-paying current accounts with the Banca d'Italia in Puglia (less Foggia) increased by 237 million lire. At the end of January, there were 1,951 million lire on deposit in all accounts with the Banca d'Italia in Puglia.

4. Postal Savings.

a. Puglia.

During January, there was a net increase of 79 million lire in funds deposited with post offices. The pattern of the distribution of funds among postal savings bonds, postal savings books, and current accounts appears to reveal a decided preference for the more liquid form of investment as against a higher interest rate.

TABLE IV

Increase in Deposits with Postal Savings Offices
(Puglia less Foggia)
January 1944
(In millions of Lire)

Postal Savings Bonds	- 22	(net withdrawals)
Postal Savings Books	20	
Current Accounts	81	
Total	79	

While all funds may be withdrawn at any time from any of these forms of investment, a postal savings bond must be held a year before any interest is paid and then 5.0 per cent is paid for the first year. The postal savings book must be held a month before interest is paid and then 2.5 per cent is paid. The current account must be held a month before interest is paid and then 1.5 per cent is paid, but as against the postal savings book, the funds can be more readily transferred by means of assegni postali.

However, it cannot be definitely concluded that the pattern of results demonstrates solely a desire to achieve greater liquidity as there have been difficulties in securing sufficient supplies of postal savings bonds and a substitute form is being used in the meantime.

b. Sicily.

No postal savings bonds were on sale in Sicily in January. The figures for all offices reporting up to 15 January 1944 show that there has been a net increase in postal savings in Sicily also. In contrast to Puglia, there was a net excess of withdrawals of 10 million lire in current accounts but an overbalancing excess of deposits in postal savings over withdrawals of 45 million lire giving a total net increase in postal savings of 35 million lire.

5. Payment of Maturity of 15 December 1943 4% nine-year bonds.

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5. Payment of Maturity of 15 December 1943 4% nine-year bonds.

We still do not have complete figures on amounts that were paid on the 15 December 1943 maturity of the 4% nine-year bonds. The amounts that were paid that have been reported are shown in Table V.

As an indication of the proportion of the bonds paid to the amounts outstanding, the Banca d'Italia at Salerno was asked to report on the total amount of the bonds outstanding (represented by counter-foils in the possession of the bank) and the amount of bonds that had been redeemed. According to these results, one-fifth of the total outstanding bonds had been paid by the end of January. The same proportion appears to hold in Sicily. Prior to the redemption it had been estimated that there were 54,000,000 lire in bonds outstanding and by the end of January (20 January outside Palermo) one-fifth of this total had been presented for payment. Presumably, the bulk of the remainder of the bonds had been sent or taken north for safe-keeping against our landings.

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TABLE V

Payment on 15 December 1943 Maturity
4% nine-year Bonds
31 January 1944

AREA	TOTAL	
	Lire	
Palermo	3,880,000	
Rest of Sicily	7,656,500	(1
Calabria	1,809,000	(2
Luccania	1,576,000	(2
Salerno	1,913,500	
Puglia (less Foggia)	11,952,500	(2
Foggia	730,000	(3
Napoli	28,654,000	
Benevento	498,000	(3
Campobasso	1,444,500	(2
Total of above	59,514,000	

1) to 20 January 1944.
2) December only.
3) January only.

6. Currency holdings of banks in Puglia (less Foggia):

a. On 31 January 1944, the bulk of the currency in the banking system in Puglia was concentrated in the Banca d'Italia. At this date, the Banca d'Italia held 660 million lire in currency while the principal banking institutions held only 90 million lire.

b. In Table VI we present the break-down of the types of currency held by the Banca d'Italia and by the other banks. Some of the main points to be noted are:

(1) 60 per cent of the private bank holdings are composed of Italian printed lire, the remainder of various currencies introduced with the Allies.

(2) If the 200 million advance in AM lire which the Banca d'Italia received near the end of January be excluded, the Banca d'Italia holdings of currency were about equally balanced between Italian-printed lire and the Allied-introduced currencies.

(3) The very large holdings of State notes by the Banca d'Italia probably indicates that there is a preference for large denominations - as had been found to be true by AMF.

TABLE VI

Currency held in Banks
Puglia (less Foggia)
31 January 1944
(thousands of Lire)

Banca d'Italia	Total Other principal Banks	Total Banca d'Italia and Other Banks

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Puglia (less Foggia)	1,913,500	
Foggia	11,952,500	(2
Napoli	730,000	(3
Benevento	28,654,000	
Campobasso	498,000	(3
Total of above	1,444,500	(2
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TABLE VI

Currency held in Banks
Puglia (less Foggia)
31 January 1944
(thousands of Lire)

	Banca d'Italia	Total Other principal Banks	Total Banca d'Italia and Other Banks
State Notes	146,606	10,378	156,978
Banca d'Italia	69,084	40,860	113,944
Titoli Stampigliati *	11,029	5,793	16,822
AM Lire	385,573	15,365	400,938
BMA Notes	48,542	17,424	65,966
Dollars	39	218	257
Total	660,873	90,038	750,911

* See the paragraph on this in the Section, "Other Financial Developments".

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C. OTHER FINANCIAL DEVELOPMENTS.

1. Present Financial Organization of the Italian Government.

a. At midnight 10/11 February, the Badoglio Government assumed governmental powers over all of Southern Italy, south of the northern provincial boundaries of Salerno, Potenza, and Bari; and Sicily with its adjacent islands exclusive of Pantelleria, Lampedusa and Linosa. Due to the inadequacy of communications and transportation, the Italian government intends to handle its territory as three separate units; (a) Sicily; (b) Calabria, Lucania, and Salerno provinces; (c) The southern four provinces of Puglia. A regional office will be set up in Palermo to do the governmental financial work for Sicily. Calabria, Lucania and Salerno provinces will work directly under the central government offices in Salerno. The four provinces of Puglia (less Foggia) will continue to operate as they have in the recent past, more or less autonomously. The provincial and communal budgets in Puglia will be financed by the central government at Salerno through the Ministry of Interior.

b. Coincident with the expansion of territory of King's Italy, on 11 February, the Minister of Finance, Dr. Bartolini (who had never functioned after the Armistice), was removed and Lt-Col. Guido Jung, Under-Secretary from early November 1943, was appointed Minister.

c. Lt-Col. Jung has now expanded his Ministry from the less than 10 officials he had in Brindisi to 41. The present organization of the Minister of Finance is as follows, listing only the directors of bureaus:

(1) Minister — Lt-Col. Guido Jung
Secretary to the Minister — Ten. Dott. Sergio Fortis

(2) Corrdinamento Tributario, Affari Generali, Personale e Lotto
Dirigente — Gr. Uff. Dott. Carlo Taranto

(3) Tasse ed Imposte Indirette Sugli Affari
Dirigente — Comm. Dott. Luigi Giordano

(4) Servizi della Finanza Locale
Dirigente — Comm. Dott. Luigi Giordano

(5) Imposte Dirette
Dirigente — Comm. Rodrigo Ruggi D'Aragona

(6) Demanio Pubblico e Mobiliare e Provveditorato Generale dello Stato
Dirigente — Cav. Uff. ing Enrico Cecere

(7) Catasto, Servizi Tecnici e Danni di Guerra
Dirigente — Cav. Uff. ing Enrico Cecere

(8) Dogane
Dirigente — Cav. Uff. Dott. Mario Massimiliano

(9) Imposte di Fabbricazione
Dirigente — Cav. Uff. Dott. Pietro Mangiaracina

(10) Monopoli di Stato

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(9) Imposte di Fabbricazione
Dirigente — Cav. Uff. Dott. Pietro Mangiaracina

(10) Monopoli di Stato
Dirigente — NO APPOINTMENT

(11) Servizi del Tesoro e Pensioni
Dirigente — Cav. Uff. Rag. Raffaele Spizzico

(12) Debito Pubblico e Cassa Deposito e Prestiti
Dirigente — Comm. Dott. Francesco Annicchiarico Petruzzelli

(13) Archivo
Dirigente — NO APPOINTMENT

(14) Ragioneria Centrale dello Stato
Dirigente — Comm. Montuori

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2. Retirement of Titoli Stampigliati.

a. In September 1943, after the flight of the King and Marshal Badoglio from Rome, the Badoglio Government found itself without any currency printing facilities. In order to meet the needs of the government temporarily, the Banca d'Italia in Puglia (less Foggia) was authorized to issue a kind of substitute currency from the stock of blank vaglia and assegni on hand. These "Titoli Stampigliati" (so-called because of being stamped on the back with a rubber stamp) were made legal tender.

b. At present, the Banca d'Italia is retiring these "titoli stampigliati" from circulation as they come in to the Banca d'Italia. Not having the legal authority to destroy or legally annul the retired "titoli", the Banca d'Italia is doing so in effect by drawing lines across the face of the assegno or vaglia. This represents a decrease in the amount of currency in circulation. We do not have, as yet, complete figures on the amounts of "titoli stampigliati" that were issued by the Banca d'Italia. This information and the data on the amounts that have been withdrawn from circulation are being collected for us by the Banca d'Italia.

D. DESCRIPTION OF THE ITALIAN FINANCIAL SYSTEM.

1. Current Accounts With the Banca d'Italia.

Evidently, as a means of securing funds and so minimize the issuance of new currency, the Mussolini government in December 1942 raised drastically the rates of interest payable on deposits with the Banca d'Italia. The new rates of interest were put into effect on 2 January 1943 and are the rates which are now in effect in Liberated Italy. Prior to this date, the rates of interest paid on deposits on currency account with the Banca d'Italia were: Zero for non-bankers' deposits, half of a per cent on bankers' deposits. In accordance with the decree of the Ministry of Finance dated 19 December 1942, the Banca d'Italia made effective on 2 January 1943 the following rates of interest.

a. Deposits in current accounts belonging to other than banking institutions.

1 to 1½ per cent interest paid. The higher rate is paid on accounts which maintain a minimum balance of 50 thousand lire with the Banca d'Italia for a six-month period.

b. Deposits in current accounts belonging to institutions of credit.

(1) 1 - 1½% for current accounts payable at sight.
(2) 2½% for current accounts subject to eight days notice for withdrawals.
(3) 3% for current accounts subject to 15 days notice for withdrawals.

(This information is taken from D.M. 19 December 1942 and the administrative memorandum of the Banca d'Italia to its branches No. 3189)

5434

2. The Public Debt in Italy - Introductions.

a. Floating Debt.

The Italian floating debt is considered [illegible]

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5434

2. The Public Debt in Italy - Introductions.

a. Floating Debt.

The Italian floating debt is considered to consist of:

(1) "Buoni del Tesoro ordinari" (short-term notes with maturities of from 1 - 12 months and paying 3½ - 5 % interest depending upon the maturity).

(2) "Biglietti di Stato" - (State currency notes, lire notes of smaller denominations: 1, 2, 5, 10 lire.)

(3) "Anticipazioni da parte dell'istituto di emmissione" (advances by the Banca d'Italia). According to the law of 1928 the Banca d'Italia was empowered to loan up to 450 million lire to the state as a temporary advance at an annual rate of 2% interest.

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In 1935 the amount that the Banca d'Italia could loan as a temporary advance was raised to 1,000 million lire. The bank was empowered to loan more in extraordinary cases, but such loans were to be guaranteed by Buoni del Tesoro ordinari, and paying the usual interest rates of such buoni. Currency notes issued as advances to the state are exempt from the circulation tax.

(4) "Conti Correnti" - current accounts of the state with various public and semi-public financial institutes (such as Cassa dei depositi e prestiti, and istituto di previdenza of this same Cassa). These are in the form of "conti correnti fruttiferi", that is, the treasury pays interest on the account.

The Treasury has also secured anticipazioni from the Banca di Napoli and other semi-public institutions in the form of conti correnti fruttiferi.

(5) Special forms of debt arising from the temporary availability of funds belonging to the various bodies for which the Treasury acts as cashier, for example, the Fondo per il culto, the Cassa depositi e prestiti and the Istituti di previdenza of the Casse, the State railways, etc. The Treasury has the opportunity of making use of the excess of funds deposited with it over the funds paid out by these bodies. No interest is paid on this debt (on the opposite side, the State may be a creditor temporerily also.)

(6) Certificate of credit. - Special credit certificate issued to firms with claims on the State.

b. "Buoni del Tesoro straordinari" or "Buoni del Tesoro poliennali" (Intermediate-term Bonds)

These are an intermediate form of debt, half-way between the floating debt and that of the "consolidato". Theoretically, this debt is intended to be changed over eventually into long-term debt. This debt consists of 5 and 9-year bonds and had been the principal means used by the Mussolini government to finance its war deficit.

c. "Debito Consolidato" (Consolidated Debt).

(1) "Obbligazione" or "Consolidati redimibile" - long-term debt of a fixed maturity.

(a) A scadenza fissa ed unica - all bonds mature at the same date.
(b) Prestito amortizzabile - (a scadenza graduale) - groups of bonds maturing at different dates resulting in the gradual extinction of the debt.

(2) "Consolidato irredimibile" or "perpetuo" - Long-term debt without maturity.

d. Forced Loans.

(1) "Prestito immobiliare obbligatorio" (Forced Loan on Capital)

This is an obligatory loan on fixed capital, issued in 1936 (R.D. 5 ottobre 1936). It is a redeemable loan with a term of 25 years to which owners of fixed capital were obliged to subscribe to the extent of 5 per cent of value of their fixed capital, of the capitalized value at 5% of the income from buildings, and of the capitalized value at 5%, multiplied by a coefficient of 3,666,

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belonging to the various bodies for which the Treasury acts as cashier, for example, the Fondo per il culto, the Cassa depositi e prestiti and the Istituti di previdenza of the Cassa, the State railways, etc. The Treasury has the opportunity of making use of the excess of funds deposited with it over the funds paid out by these bodies. No interest is paid on this debt (on the opposite side, the State may be a creditor temporarily also.)

(6) Certificate of credit. - Special credit certificate issued to firms with claims on the State.

b. "Buoni del Tesoro straordinari" or "Buoni del Tesoro poliennali" (Intermediate-term Bonds)

These are an intermediate form of debt, half-way between the floating debt and that of the "consolidato". Theoretically, this debt is intended to be changed over eventually into long-term debt. This debt consists of 5 and 9-year bonds and had been the principal means used by the Mussolini government to finance its war deficit.

c. "Debito Consolidato" (Consolidated Debt).

(1) "Obbligazione" or "Consolidati redimibile" - long-term debt of a fixed maturity.
(a) A scadenza fissa ed unica - all bonds mature at the same date.
(b) Prestito amortizzabile - (a scadenza graduale) - groups of bonds maturing at different dates resulting in the gradual extinction of the debt.

(2) "Consolidato irredimibile" or "perpetuo" - Long-term debt without maturity.

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(2) Serie Speciale Buoni del Tesoro Novennali 3% (Special Series of 3% nine-year Treasury Bonds)

In May 1942, a special series of 3%, nine-year Treasury bonds to mature on 1 July 1951 were authorized. Corporations formed or increasing their capital after 29 May 1942 were obliged to invest a part of their capital in these bonds. In 1943, the obligation to subscribe was extended to recipients of war profits. The assess-

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ment on which the subscription are made has been only partially completed. No bonds have been issued as yet, although some money has been collected.

3. BUONI DEL TESORO ORDINARI (B.T.O.)

a. Description.

(1) Buoni del Tesoro Ordinari (B.T.O.) are one of the principal forms of Italian floating debt. They were designed originally to take care of temporary needs of the Treasury until taxes came in or until longer-term securities were sold. Both in the last World War and in this war, however, the B.T.O. have been used to provide longer-term financing; renewals and new sales making a short-term security serve the function of a longer term one.

(2) The B.T.O. are a short-term security of one to twelve months maturity. Prior to 20 March 1943, no one and two-months B.T.O. were sold but on that date they were added to the types of B.T.O. available for purchase. The B.T.O. are sold in two forms; made out to bearer or to an individual. Very few of the latter are sold and they are only sold for a 12-month term. The bearer B.T.O. on the other hand, are on stock on blank for any maturity in the branches of the Banca d'Italia.

(3) The B.T.O. are on sale all the time at the branches of the Banca d'Italia. They are sold on a discount basis at varying rates of discount depending upon the maturity. They are dated as of the date of purchase. The bonds consist of the following series:

SERIES	DENOMINATION in lire	SERIES	DENOMINATION in lire
A	500	E	10,000
B	1,000	F	50,000
C	2,000	G	100,000
D	5,000	H	500,000

(4) The periods for which the bearer bonds are issued and the discount rates are as follows:

PERIOD MONTHS	PER CENT RATES OF DISCOUNT ON AN ANNUAL BASIS	PERIOD MONTHS	PER CENT RATES OF DISCOUNT ON AN ANNUAL BASIS
1 -	3.25 %	7 -	4.75 %
2 -	3.25	8 -	4.75
3 -	3.75	9 -	4.75
4 -	3.75	10 -	5.00
5 -	4.25	11 -	5.00
6 -	4.25	12 -	5.00

5.33

(5) No interest is paid after the bond matures. If it is not presented for payment on maturity, the investor loses interest.

b. Selling Process.

(1) The Buoni del Tesoro ordinari are purchased either directly at the Banca d'Italia or through a bank or post office. When purchased through a post office, the bond is dated as of the date of application and not the date when the

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b. Selling Process.

(1) The Buoni del Tesoro ordinari are purchased either directly at the Banca d'Italia or through a bank or post office. When purchased through a post office, the bond is dated as of the date of application and not the date when the application arrives at the Banca d'Italia.

(2) When the bond is made out, it is dated as of the date of issue and the date of maturity is likewise stamped on it. The interest rate pertaining to the term of the bond, the amount of discount, and the net amount paid are all entered on the bond at the time of purchase. The name of the issuing branch of the Banca d'Italia is likewise stamped on the face of the bond. The Cashief and Director of the Treasury Section of the Banca d'Italia branch sign the bond before issue.

(3) The B.T.O. in blank consists of foil, bond, and counter-foil. When the bond is made out and issued, the foil is sent to Rome to the Direzione Generale del Tesoro, the bond is delivered to the purchaser, and the counter-foil is preserved by the branch of the Banca d'Italia issuing the bond. The bond, foil and counter-foil bear the same number. This number is entered on the application

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which likewise bears the name of the person or institution which made the purchase. This may not be the actual owner, of course.

c. Redemption.

When the bond has matured, it can be presented to any bank for collection from the Banca d'Italia. If the client is known, the bank may advance the money while the funds are being collected from the Banca d'Italia. The bond is forwarded for payment to the Banca d'Italia. The bond is compared to the appropriate counter-foil at the Banca d'Italia and payment is made.

d. Amount of B.T.O. Outstanding.

(1) During the first World War, the B.T.O. were used to finance a large part of the deficit. By renewals and new sales, the amount outstanding had increased to 25,000 million lire in 1922. In 1926 there were still 18,000 million lire outstanding. In that year, the B.T.O. were forcibly converted into a new long-term security, Consolidato 5% by the Royal Decree of 6 November 1926.

(2) The Italian Treasury appears to have resumed the policy of using the B.T.O. to finance its deficit around 1936. We have no figures as to the actual amount of B.T.O. outstanding except for the statement of the Finance Minister on 5 August 1943 that 51,000 million lire were outstanding on 31 July 1943.

(3) Lt-Col. B. Bernstein and Lt-Cmdr. F.A. Southerd made the following estimates of B.T.O. outstanding based on the interest charges.

YEAR	AMOUNT OUTSTANDING
1936-37	est. 1,600 million lire
1937-38	est. 6,100 " "
1938-39	est. 10,500 " "
1940-41	est. 14,300 " "
1941-42	est. 21,200 " "
1942-43	est. 46,500 " "
30 June 1943	52,000 " "
31 July 1943	51,000 " "

(4) The Banca d'Italia, at our request is securing information from its branches in Liberated Italy on the total amounts of B.T.O. sold by maturities for the past year and the total paid each month. Based on the information secured from the Banca d'Italia in Naples as a sample (which has around 400 million in B.T.O. outstanding) a rough estimate of the total amount of B.T.O. outstanding in Liberated Italy on 31 January 1944 is 3,000 million lire. This would imply that the bulk of the investment in B.T.O. took place in the north (certainly all of B.T.O. held by the Banca d'Italia as guarantee against its advances to the government were held by the central administration in Rome).

(5) The figures that we have on Naples, Salerno and Puglia (less Foggia) show that from the first of July to the date of occupation by Allied troops, as a part of the general governmental financial

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(5) The figures that we have on Naples, Salerno and Puglia (less Foggia) show that from the first of July to the date of occupation by Allied troops, as a part of the general governmental financial crisis, the total amount of B.T.O. outstanding was contracting rapidly. The floating debt was coming due and in large part not being renewed. In Naples, the government had to pay out almost twice as much on B.T.O. maturing during this period as it received from the renewal and sale of new B.T.O. In Puglia 50 per cent more had to be paid than was received. In Salerno, the money which had to be paid out, again was almost twice as much as was received. In these three areas there was a net dis-investment of around 150 million in these government securities before our occupation.

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