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Declassified E.O. 12356 Section 3.3/NND No. 785016

10000/132/176

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Finance
May - Oct. 1944

SECRET

AFHQ

ACC

S- 352

9 Oct.

SECRET

PRIORITY

Acting Chief Comm.

SECRET PD CONFIRMING ADVICE TO GENERAL SPOTFORD CMA AFTER FULL PRESENTATION OF THE PROCUREMENT AND FINANCIAL PROVISIONS OF AFHQ ADMIN MEMORANDUM THIRTY ONE OF FIRST AUGUST TO PRIME MINISTER BONOMI AND TREASURY MINISTER SOLERI CMA BONOMI STATED THAT POLITICAL X EFFECT OF THE PROPOSED LIRA ACCOUNT CMA WHICH IT IS NOW ESTIMATED WOULD BE NOT LESS THAN ONE BILLION LIRA MONTHLY CMA WOULD BE QUOTE DISASTROUS END QUOTE PD PAID TO AFHQ FOR SACRED CMA ^{US} STATES POLITICAL ADVISER AND BRITISH RESIDENT MINISTER FROM ACC FROM STONE PERSONAL PARTN SINCE HE CONSIDERED THE EFFECT ON HIS GOVERNMENT WOULD BE EVEN MORE GRAVE THAN I HAD ANTICIPATED I MUST RENEW MY RECOMMENDATION THAT IMPLEMENTATION OF AFHQ ADMIN MEMORANDUM THIRTY ONE BE DEFERRED

AUTHENTICATED:

ELMER W. STONE 6537
Commodore, USNR
Acting Chief Commissioner

NO ADD CHIEF OF STAFF.Distribution:

10 Oct 1944.

1/00

Econ Sec

Finance Sub-Comm.
Chief of Staff.

Political Section.

SECRET

~~W.S.~~
~~H.C.~~*Political Sec.*

CONFIDENTIAL

DMS/afc

WCE 100.

13 October 1944

Dear Mr. Airm:

Receipt is acknowledged of your letter of October 12 with attachment indicating that the figure for pay of United States troops is approximately 125 million dollars up to October 1, 1944. The size of this figure would indicate that instead of the gross payments made to troops, as indicated in the President's release and the State Department's message to you, the actual figure intended is the net amount retained by troops in Italy after their remittances to the United States and purchases of war bonds. However, the reply from the State Department in your message of today should clarify the point.

As indicated in the attached copy of my letter of today to AFM, I shall await instructions from AFM before implementing the proposed joint import program with the Italian Government.

Sincerely yours,

WILLIAM W. BROWN
Comptroller, USA
Acting Chief Commissioner

The Honorable Alexander Kirk
U. S. Representative to the
Advisory Council for Italy
Via Vittorio Veneto, 119
00187

cc: C of S
Economic Section
Finance S/C
'A' Files

Political Section ✓

CONFIDENTIAL

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COPY

UNITED STATES REPRESENTATIVE
ADVISORY COUNCIL FOR ITALYPersonal and Confidential

Rome, October 12, 1944

Dear Commodore Stone:

Referring to the United States program for financing essential Italian civil requirements which I transmitted to you with my letter of October 11, I enclose herewith certain material summarized from communications received from the Department of State which I trust will be useful for background purposes.

Sincerely yours,

/s/ A. Kirk

American Representative
on the Advisory Council for Italy.

Enclosure:

As mentioned.

Commodore Ellery Stone,
Acting Chief Commissioner,
Allied Control Commission,
Rome.

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(1) Accurate estimates of what will probably accrue to the Government of Italy under the several items which the program provides for can no doubt be supplied by the Allied authorities in Italy. In the matter of pay of United States troops a rough guess here (i.e. in Washington) is that by October 1, 1944, about \$125,000,000 will have accrued, and that in the succeeding year an additional \$25,000,000 may accrue.

(2) When the program is submitted, it is essential that the Government of Italy realize that its capacity to obtain from the United States essential imports will be limited strictly to the assets in dollars which from the items provided for above become available to the Government of Italy.

SECRET

Political Section

EES/dfe

A/CO 100

13 October 1944

Dear Mr. Kirk:

With reference to your letter of October 11th which forwarded a statement of United States' arrangements for financing civilian supplies for Italy, and with reference to our conversations of yesterday on this subject, certain points require clarification, and I should be grateful if you could cable the Department urgently regarding them.

Paragraph "B" below raises a question of the greatest importance, since the amount of lire retained in Italy and not sent home by troops is only approximately 17% of the total amount issued to them. Under ordinary circumstances, I should prefer to await clarification of this point in particular which is really the heart of the entire statement, before presenting it to the Italian Government. If, however, you feel that the Government should receive the statement as drafted, I will present it to the Prime Minister today, advising him that we have cabled urgently for clarification of the following points listed below, with the exception of "B" which might be omitted from the statement.

A. In view of the questions already asked by the Italians, it is essential that we be informed of the date on which the U. S. Army's responsibility for procurement will pass to Italian Government.

B. We assume that only that part of the dollar equivalent of lire issued to troops of the U.S. which is not sent home by way of remittance or War Bond purchases will be made available to the Italian Government.

C. In connection with the dollars made available under "B", it would be desirable to know the approximate amount to answer the questions already raised by the Italian Government and in order to formulate the required joint program of essential civilian requirements for Italy.

D. With reference to the dollar proceeds of Italian exports and remittances transmitted to Italy through dollars and other items, we assume that only exports to the U.S. and remittances from the U.S. are intended. In view of the need of paying diplomatic expenses on a current basis it would be desirable to have an approximation of such dollar proceeds.

E. It is felt undesirable to inform the Italian Government that the British Government and the U.S. Government will jointly seek an arrangement with the French Committee for National Liberation until such arrangements have been made.

SECRET

Will you kindly telephone me your views.

Sincerely yours,

ELDERY B. STONE
Commodore, USNR
Acting Chief Commissioner

The Honorable Alexander Kirk
U. S. Representative to the
Advisory Council for Italy
Via Vittorio Veneto, 319
Rome

cc: Political Section
Finance Sub-Commission
Sir Noel Charles
Chief of Staff Section

6539

SECRET

HEADQUARTERS ALLIED CONTROL COMMISSION
POLITICAL SECTION
APO 894

Ref 7480

16 August 1944

MEMORANDUM TO: Italian Ministry of Foreign Affairs.

SUBJECT : Reimbursement to Signor Paolo Racchetti of Funds
Deposited by him and Frozen in the Bank of Italy at
Addis Ababa.

With reference to memorandum 6/202/98 of 9 August, it is regretted that the Allied Control Commission is not empowered to order a transfer of these funds. However, the entire question of the refund of accounts frozen abroad has been referred to higher authority for decision and it is hoped that some favorable action will be taken at an early date.

/ 225

WILLIAM W. SCHOTT
Vice-President, Political Section

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10 August
WSMiss Kelly
Political Section

1. I am afraid that we cannot hold out any hope at this time of the transfer requested.
2. The whole question has been referred to the War Office for decision at a high level.
3. In any case, Acc has no power to order such a transfer.

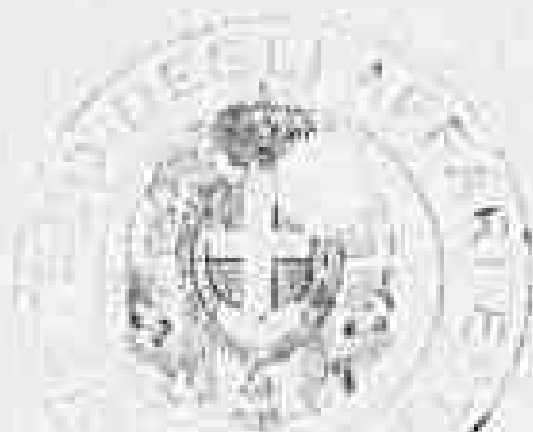
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B L Timmons
Major
Finance &c

consumer. Do not include heavy worker supplemental rations, children's sheet if desirable. A bread ration of 200 grams per day should be c. Issues made irregularly, rather than under a daily ration, should be cases state the approximate amount actually distributed per person, are entitled under existing ration plans. Note that olive oil and ilos.

Ending

[illegible]

Reporting Officer



Procedere Sub Commissione
/202/98

Ministero degli Affari Esteri

MEMORANDUM FOR THE POLITICAL SECTION A.C.C.

On January 3rd, 1942, Signor Ercole RACCHETTI, an Italian subject, deposited at the Bank of Italy in Addis Ababa, the sum of 100.000 Lires for which the Custodian of Enemy Property gave him a receipt stating also that the sum would be refunded in Italy.

Signor Racchetti repatriated on January 1943, as an invalid, and once in Italy made an application for the reimbursement of the sum, obtaining from the competent Authorities of the British Government confirmation of the existence of the deposit.

In view of the difficult economic conditions of signor Racchetti, it would be appreciated if the A.C.C., could approach the Competent Allied Authorities, in order that the sum in question be transferred to the Bank of Italy in Rome and be placed at Signor Racchetti's disposal.

A photostatic copy of the receipt given by the Custodian of Enemy Property in Addis Ababa is enclosed. *Adls.*

Rome, August 9th. 1944.

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Declassified E.O. 12356 Section 1.3/NND No. 755616

CUSTODIAN OF ENEMY PROPERTY ADDIS ABABA

880391

Ricevuto per conto del Custode dei Beni Nemici - Addis Abeba
Received for account of Custodian of Enemy Property - Addis Ababa

da
from

ERCOLE RACCHETTI

(Nome in lettere maiuscole - Name in block) EVANTONIO

Tessera di evacuazione n.
Evacuation Tesser n.

E 12808

la somma di Lit.
the sum of

Centomila (100.000.00)

Firma del Depositante
Depositor signature

Firma della Banca
Signature of receiving Bank

Addis Ababa

3 gennaio 1942

Ogni futuro riferimento a questo deposito deve essere fatto **direttamente** al Custode dei Beni Nemici - Addis Abeba.

All future reference to this deposit must be made **direct** to the Custodian of Enemy Property - Addis Ababa.

La presente ricevuta è liberamente esportabile dall'Etiopia.

The present receipt is freely exportable from Ethiopia.

THIS IS NOT A NEGOTIABLE
For CUSTODIAN OF ENEMY PROPERTY
ADDIS ABABA

Acting Custodian
Capt. ACE (ADDIS ABABA)

SR

June 2, 1944.

MEMORANDUM:

Re: Allied Financial Policy in Italy

Venuti and Rodino, Jr., of the Christian Democrats came in today at their request and asked whether a report which they had seen in ITALIA LIBERA (New York) of an announcement by the United States Treasury of Allied financial policy in Italy were accurate. They produced copies of IL POPOLO for May 27, in which the New York report had been reproduced.

They pointed out that the reports, if true, would have a vital bearing on the Italian economy now and in the future. I got the impression, in the course of the ensuing discussion, that they were, despite their protestations, in search of a ready-made political football.

At my request, Major Timmins of the Financial Sub-Commission came in and, after hearing the problem, promised to check the reports and let Rodino and Venuti know what he could.

June 4, 1944.

Major Timmins told me today that the Treasury had apparently issued a statement along the lines reported, but that he was reluctant to tell all to the politicians without any directive from Washington. He will, however, try to pacify them with an interim non-committal statement.

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Joseph N. Greene, Jr.

c.c. Major Timmins

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TOP SECRET

NOTES ON ECONOMIC PROBLEMS IN SOUTHERN ITALY

A.

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

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

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

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2.

B.

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

Currency and Credit

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

What was the general price level?

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

- (2) What is total Angot lire introduced by Allies?
- (3) Have the Allies introduced ordinary Italian lire, obtained from various sources, in addition to Angot lire, and if so, to what extent?

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

- (5) Is the Italian Government issuing lire of its own, and if so, through what Bank of Issue?

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

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

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

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- (6) Is the Bank of Rome the only normal Bank of Issue, or are there others?
- (7) At what monthly rate are Angot lire being introduced?
- (8) Are Angot lire only used for purchases by troops individually? Or are other payments made in them? If so, what is the proportion between the private and official use?
- (9) Presumably any large transactions between the Italian Government and ourselves are recording transactions, not settled in currency?
- (10) Do we hand over Angot lire to the Italian Government for its own use, and if so, to what extent?

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3.

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

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

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

Expenditure and Savings

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

(2) What indirect taxes are being levied?

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

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

What other methods of savings, such as Lotteries, etc. are operating?

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

C.

3. It may be convenient to consider the measures

taken in Great Britain since the outbreak of war and to see to what extent they can be applied mutatis mutandis

(a) in Southern Italy under present conditions, and

(b) in Italy as a whole when the greater part of it is liberated. The general financial policy in Great Britain

has been to make every endeavour to keep as stable a price

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

C.

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

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

4.

(2) Strict control and rationing of all essentials.

These measures together have resulted in the maintenance of the cost of living up to the present at 20 per cent above pre-war level. Without the subsidies it would have reached between 45 and 50 per cent above pre-war level; without other measures, such as rent fixation, a much higher figure would have been reached.

(3) Wage index in 1944 was 22 per cent above

September 1939, and by the present time have reached about 40 per cent, above 1939, owing to overtaking Sunday time, etc., earnings have risen substantially higher.

(4) In addition, taxation direct and indirect has been raised to very high levels; and savings stimulated through all possible means; this a sufficient amount of the personal income of the public has been taken off the market. In 1939 76 per cent of the personal income was spent on consumption; by 1943 this figure had been reduced to 53 per cent. (These estimates are on a basis by eliminating the effect not only of direct but of subsidies.)

All these measures together, the subsidizing and the fixing of the price of necessities, and the clearing back from the market by taxation direct and indirect, and by savings of the greatest possible amount of purchasing power created by war expenditure, have been the instruments by which reasonable stability has

6023

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indirect, and by savings of the greatest possible amount
of purchasing power created by war expenditure, have
been the instruments by which reasonable stability has
been maintained up to date.

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5.

B.

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

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

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

6.

E.

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

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

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

(3) Savings. I do not know the present position with regard to short or long term savings; but it seems

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Italian Government.

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

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

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

7.

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

F.

5. There remain certain problems directly attributable to the invading armies which we may think peculiar to Italy and other occupied territories. To

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F.

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

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

8.

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

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

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

(d) By alteration in the rate of exchange.

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

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

What would the troops do?

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

What was the experience in North Africa

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What would the troops do?

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

What was the experience in North Africa

Last March?

(11) What would be the military effect?

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

G.

9.

C

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

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Harold Macmillan.

8th May, 1944.

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Declassified E.O. 12356 Section 3.3/NND No. 785016TQ SECRET BUENOS AIRES (1)

Requale British SECRET

Emigrants remittances

- OUTGOING

JAN 1944

JAN

17/7

1872

JAN 07/13/6A

JAN

SECRET

ROUTINE

FATIMA

FREEDOM

FOLLOWING QUOTED MESSAGE FOR ITALIAN EMBASSY AT BUENOS AIRES TO TO FREEDOM FOR
CIVIL AFFAIRS FROM PAPER SIGNED JOYCE TO QUOTE MEMBER ONE DATED JANUARY FIVE TO
 REFERENCE YOUR CABLE NINE THREE ZERO TO MINISTRY OF FINANCE CONSIDERS RESUMPTION
 EMIGRANTS REMITTANCES FROM ARGENTINA OF GREAT IMPORTANCE PROVIDED ANNUITY PAID
 THERE REMAIN AT ITALIAN GOVERNMENT DISPOSAL TO ABOVE MINISTRY PROPOSES
 THAT EXCHANGE TO BE APPLIED FOR SUCH REMITTANCES BE CALCULATED AT ONE POUND TO FIVE
 ZERO LIRE TO THE ARGENTINE PESO TO DEFER TAKING DECISION HOWEVER REQUESTS YOU
 CONSULT OUR BANKING INSTITUTIONS IN ARGENTINA AND URGENTLY REPORT TO SIGNED PRINCE
 UNQUOTE TO FOR YOUR INFORMATION WE HAVE RECEIVED ASSURANCE FROM FINANCE UNDER DASH
 UNDERSTAND JUNE THAT ONLY HE WILL HAVE POWER TO OVER PAYMENTS FROM SUCH ITALIAN
 FOREIGN EXCHANGE ASSETS IN ARGENTINA AND THAT OUR PERMISSION WILL BE SECURED BEFORE
 ANY SUCH PAYMENTS ARE MADE

AUTHENTICATED:

ROBERT E. DOE
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 Secretary of the Commission

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