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OUTLINE PLAN FOR CONTROL OF ITALY

M.G.S. PAPER NO. 7

21 August 1943.

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ALLIED FORCE HEADQUARTERS

MILITARY GOVERNMENT SECTION

August 21, 1943

OUTLINE PLAN FOR OCCUPATION OF ITALY.

A. ASSUMED SITUATION

1. Further provision must be made for a quick occupation of a major part or all of Italy as a consequence of an armistice. It is assumed herein that the Italian Government and armed forces make a complete submission to the Allied Nations and that Italian territory is to be occupied by Allied Forces. The administrative system and the economy of Italy are to be brought under an Armistice Control Authority as rapidly as may be. In areas where active operations against German forces are still in progress, Allied Military Government will be established. The following plan establishes the scheme for both Military Government and post-armistice control which this situation would require, and prescribes the formations of personnel which the execution of the scheme would involve.

2. An Armistice Control Authority operates in a different situation from a Military Government. The latter takes the place of a government which has been expelled, while the former operates upon a government which, after submission, has been kept in operation. The function of the Armistice Control Authority will be to maintain conditions favorable to the use of Italy as a base of operations, to enforce the conditions of the armistice, and to carry out such other policies as may be prescribed by higher authority. Whereas the powers belonging to a Military Government flow from general principles of international law, the activities of an Armistice Control Authority are restricted by the terms of the armistice. If, however, the Allied Nations reserve for themselves all the powers of an occupying power, they will have even under an armistice the same plenary authority they would have had if they had simply driven out the Italian Government. Still, in post-armistice conditions even more than during Military Government, it will be desirable to control the administration and economy of Italy by indirect methods, through the Italian Government, so long as adequate results are produced. Until further directives are given as to the organization and methods of the post-armistice control, the Armistice Control Authority will do all that may be necessary to safeguard the interests of the United Nations, but will refrain from any avoidable anticipation of questions of major policy.

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3. It is assumed that the disarmament of military, naval and air formations, the collection of surrendered materiel, the demobilization of the Italian armed forces, and like service matters involved in administering an armistice will be assigned to appropriate Military, Naval and Air Control Sections to be established by the Commander in Chief. Military Government Section AFHQ looks to the Assistant Chief of Staff, G-3, to prepare detailed plans for these aspects of armistice control. Accordingly the chart showing the post-armistice structure set out in Appendix 1 merely reflects the necessity of such units in the organization, but implies nothing as to their internal structure. Similarly it is to be expected that Civilian Agencies will be brought into Italy to perform various functions - relief, rehabilitation, supply, and the like. It may be that some functions which at the outset are performed by military personnel will later be transferred to the Civilian Agencies. The Chart, therefore, tentatively assigns a place to these Agencies, but does not prejudge their organization or the range of their activities.

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PLAN OF ACTION TO BE TAKEN.

4. In the assumed situation, Italian forces offer no resistance and so far as the Italian government is concerned Allied control may be established over the government and territory as rapidly as the formations of personnel arrive on the ground. This will be the work of the Armistice Control Authority to be established in the name of the Allied Nations by the Allied Commander in Chief.

5. German forces, however, will be present in Italy and it is to be expected that at some point they will have dug themselves into positions which they are endeavoring to hold. To drive them from that line and to exclude them from Italy will be the function of certain combat formations. It is assumed that the 15th Army Group would be charged with this mission. Allied Military Government would then be established in the immediate rear of the 15th Army Group, performing the same function as AMG in Sicily performed during the operation Husky. The Chief Civil Affairs Officer would be responsible directly to the General Officer Commanding 15th Army Group, just as in Sicily.

6. The present plan, therefore, must cover two distinct operations: An Allied Military Government forming part of the 15th Army Group and following its progress in clearing the ground, and and Armistice Control Authority which extends its control over Italian territory as rapidly as the tactical developments permit. As the 15th Army Group advances the Allied Military Government will turn over the areas it has been governing, to be thereafter administered by the Italian Government under the supervision and direction of the Armistice Control Authority. It is to be expected that events will develop rapidly, so that in execution the plan will have to be modified to meet changing conditions.

7. ALLIED MILITARY GOVERNMENT: The organization of the Allied Military Government will follow the pattern already established for the operation Husky.

8. ARMISTICE CONTROL AUTHORITY: The organization of the Armistice Control Authority will consist at the outset of a National Headquarters, Regional Organizations, and Control Officers located in the provincial capitals and elsewhere as may be found convenient. The National Headquarters ~~will plan~~ to move into Rome as promptly as may be and establish itself there as an agency for the control of the Italian National administration. It will, under the Allied Commander in Chief, direct that administration as may be necessary in the interest of the United Nations and will see to it that the conditions laid down in the armistice are fulfilled. It will be divided into special staff sections (Legal, Financial, Public Health, etc.), whose duties would include the control of the respective ministries and agencies of the Italian Government.

2654

9. Regional organizations of the Armistice Control Authority will be progressively established as rapidly as the occupation of

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9. Regional organizations of the Armistice Control Authority will be progressively established as rapidly as the occupation of the Italian territory is effected. These organizations will serve only a temporary purpose. (See paragraph 1[illegible] below.) At the outset the Regional Headquarters will be in direct control of the area assigned to it, subject to such orders as it receives from Headquarters of the Armistice Control Authority. Presumably some Regions will be organized before the National Headquarters can be in effective operation.

10. Control Officers will be assigned within each Region, at provincial capitals and elsewhere as may be needed for the supervision of public administration and for other purposes. They will be the local representatives of the Armistice Control Authority and the means by which the National Headquarters keeps itself in constant touch with local conditions. Control Officers will execute the instructions and policies theyreceive from above.

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11. It is to be anticipated that at the outset in at least some of the Regions local dislocations and disorders will be encountered which must be handled on the spot. Therefore the Regional Headquarters, with its local Control Officers, must have authority, in the early days of the occupation, to cope with situations on its own responsibility, subject to such directions as it may receive from National Headquarters at Rome. As soon, however, as it becomes practicable to do so, the Regional Headquarters will be eliminated from the chain of command. The Armistice Control Authority will thereafter deal directly with the local Control Officers. Thus as rapidly as may be the Armistice Control Authority will be operating on the sound principle that its structure should correspond to the governmental system it is controlling. It would have its units of authority in JUXTAPOSITION to those units of the Italian Government: A Headquarters supervising the National administration at Rome, and a Provincial Control Officer supervising each provincial prefect. Additional Control Officers will be assigned to assist the Provincial Control Officer and to supervise other local matters, such as the operation of harbors and docks, transportation and communication centers, and banks. The Fascist Party has been so deeply involved in Italian public administration that the eradication of the former will leave the latter in a somewhat paralyzed condition. Hence the Headquarters of Armistice Control Authority at Rome will require the support of a number of Control Officers throughout the country.

12. When the Regional Headquarters have been eliminated from the chain of command it will still be desirable to make such a disposition of personnel that there will be some supporting element between the National Headquarters at the top and the local Control Officers at the bottom. In each REGION there will be a group of qualified officers, who will act as a "trouble shooting" staff for the various divisions of the National Headquarters. The Regional Control Officer will be responsible for the administration of his group and will keep the National Headquarters advised on their activities. It is important that each Regional group be kept at the minimum number consistent with efficiency. The functions of the Regional staff officers will be:

a. To inspect the working of Armistice Control activities within the Area;

b. to make recommendations on administration and policy to the Armistice Control Authority;

c. to submit situation reports to Armistice Control Authority.

The Regional special staff would not have representatives of every one of the divisions at Armistice Control Authority Headquarters, but only such as seemed necessary and appropriate to the Ar[illegible] Area comprising the industrial North would be stiffened with specialists on utilities, production and labor, but would perhaps

2653

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13. It may later be found desirable to do away with the Regional organization and to substitute an Area of two Regions as the unit within which the "trouble shooting" group is to operate.

14. For Sardinia there will be one Senior Control Officer, who will communicate directly with Headquarters of the Armistice Control Authority. He will have under him a Provincial Control Officer, with staff, for each of the three provinces in the island.

15. At an appropriate time Sicily will be brought into the system of the Armistice Control Authority.

16. The extension of control over Italian territory will inevitably take some time, depending upon the tactical situation.

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Provision must therefore be made for holding personnel at a suitable point where Regional teams may be formed, to be despatched to their respective Regions as soon as the ground is cleared. The Military Government School and Holding Center now at Tizi Ouzou will accordingly be moved to the mainland, and as near to Rome as is practicable, to receive personnel from the United Kingdom, the United States, and elsewhere, and to carry on the indoctrinating and organizing essential to the scheme.

C. EXECUTION OF THE PLAN.

17. An Allied Military Government for Region 2, comprising Calabria, Lucania and Apulia, is already provided for in the operation Baytown. It is now being formed in Sicily with personnel there present. In the event of a post-armistice occupation this group will establish itself as the Regional Armistice Control Authority for Region 2.

18. An Allied Military Government for Region 3, comprising Campania, is already provided for in operation Avalanche. It is now being formed at Tizi Ouzou. In the event of an armistice this group will establish itself at Naples as the Regional Armistice Control Authority for Region 3.

19. The Allied Military Government Headquarters now formed at Palermo for the purpose of becoming the governing authority over Regions 1 (Sicily), 2, and 3 in connection with operations Baytown and Avalanche will continue as a part of 15th Army Group and will follow it in its movement of clearing German forces from Italian territory. This AMG Headquarters will organize Military Government behind the line held by 15th Army Group, and for that purpose will be furnished the necessary personnel from the Military Government School and Holding Center. As rapidly as conditions permit the Allied Military Government will turn over territory occupied to the Armistice Control Authroity and go on with the 15th Army Group.

20. The Headquarters group contemplated in the Memorandum on Preparation for Post-Husky operations, now being formed at Tizi Ouzou, will be prepared to become the Armistice Control Authroity for the post-armistice period. While continuing, therefore, to organize for the mission already assigned to it, it will also plan for the alternative that is has to take over the control of the Italian National Government and Italian economy pursuant to an armistice. This would involve some adaptation of its structure to the requirements of the new situation. Planning for the Armistice Control Authority will have first priority.

21. It is to be expected that the British and American Governments will decide upon directives as to the structure and methods of post-armistice control in Italy. What the superstructure of this control will be cannot be foreseen now. But it seems reasonable to expect that the special staff divisions, Legal, Finan

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21. It is to be expected that the British and American Governments will decide upon directives as to the structure and methods of post-armistice control in Italy. What the superstructure of this control will be cannot be foreseen now. But it seems reasonable to expect that the special staff divisions, Legal, Finance, Public Health, etc., will have to be perpetuated in any system of post-armistice control. In any event, the Allied Commander in Chief must be prepared, if an armistice should be made, promptly to establish some suitable form of control over the Italian Government and economy pending further directives from the Allied Governments. It will be the duty, therefore, of the National Headquarters to take such immediate steps as may be necessary for military [illegible] reasons and to secure the enforcement of the conditions of armistice; it will await further instructions before it commits itself to long-range objectives.

2652

22. Allied Military Governments for Region 4, comprising Abruzzi and Lazio, and for Region 5, Umbria and the Marches, will be formed at Tizi Ouzou as rapidly as personnel become available. They will plan for both alternatives:--~~[illegible]~~ the establishment of a Regional Headquarter of the Armistice Control Authority (its first priority), and the occupation of its ~~occupied~~ ASSIGNED area as a unit of the Allied Military Government in the wake of the 15th Army Group.

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23. Similarly an Allied Military Government for Region 6, Sardinia, will be formed at TIZIOUZOU as soon as may be. It will plan for the two alternatives. This group will have personnel selected to meet the additional qualification that they will have to operate with a French Army, and will thus have special problems of liaison.

24. Tuscany is designated as Region 8, and Emilia as Region 9, in the present plan. [The number 7 has already been referred to as the National Headquarters.] For each Region a skeleton organization will be formed at TIZI OUZOU, to be somewhat strengthened as additional personnel becomes available. It is expected, however, that most of the strength for those Regional organizations will be found by withdrawing officers from the Regions earlier to be occupied. In every Region, once it has its territory under control, personnel will be taken out and made available, through the Holding Centre, for later Regional teams.

25. The School and Holding Center will be removed to the vicinity of Rome at the earliest practicable moment, in order that it may be accessible to the National Headquarters and in the most advantageous position for assembling teams to take over additional Regions as they may be cleared. The extension of the Armistice Control Authority as new areas are cleared will involve constant shifting of personnel; it will be the function of the Center to receive this personnel as well as any additional strength which may be made available, and to organize new units.

26. The initial estimates of personnel for the several Regions and for the Headquarters of the Armistice Control Authority are set out in Appendices. This strength will subsequently be reduced as the situation permits and as the needs for extending control to the north require. The maximum utilization of personnel requires that no rigid schedule be prescribed at this time. Similarly, the system of alternating British and American personnel in the several headquarters and special staff divisions may have to be somewhat departed from in the interest of the rapid formation of mobile, effective, and well-rounded teams. The proportion of total American to total British personnel has been agreed upon by the two Governments. It will suffice, therefore, if in any team a fair distribution prevails between the two nationalities.

D. <u>ORGANIZATION OF THE ARMISTICE CONTROL AUTHORITY</u>.

27. The Armistice Control Authority will have the structure indicated in Appendix 1. There will be a Chief, assisted by a Deputy Chief. The Executive, under their direction, has general administrative supervision over all activities of the Authority, both in the staff divisions and in the field. Directly attached to the office of the Executive is a Supervisory Section whose duty it will be to study the organization and procedures of the various elements in the system, to obtain information as to the progress of work and the efficiency of operations, and to recommend such corrective measures as may be found desirable.

28. The special staff divisions are grouped for convenience of

officers from the Regions earlier to be occupied. In every Region, once it has its territory under control, personnel will be taken out and made available, through the Holding Centre, for later Regional teams.

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2651

28. The special staff divisions are grouped for convenience of supervision into an Administrative Section and an Economic Section, each under a Chief. The SEVERAL divisions will perform functions which, for present purposes, are adequately indicated by their respective NAMES. The details of their organization and duties will depend upon the conditions imposed in the armistice.

29. It is to be anticipated that the situation which finally presents itself will have features which can not be accurately foreseen. Hence this scheme will have to be fitted to the special circumstances when the time arrives. All personnel drawn into military government work must, therefore, be prepared for hasty readjustment in plans. For example, it might become necessary to establish restricted areas subject to special military control approaching the intensity of a Military Government.

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The principles here laid down will, therefore, be applied flexibly to whatever eventualities arise.

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LIST OF APPENDICES

1. Chart of Armistice Control Authority.
2. Summary of officers for regions Military Government and Armistice control and differences made available by conversion from Government to control.
3. Comparative table of Military Government to Armistice Control (Estimated) Region 1.
4. Comparative table of Military Government to Armistice Control (Estimated) Region 2.
5. Comparative table of Military Government to Armistice Control (Estimated) Region 3.
6. Comparative table of Military Government to Armistice Control (Estimated) Region 4.
7. Comparative table of Military Government to Armistice Control (Estimated) Region 5.
8. Comparative table of Military Government to Armistice Control (Estimated) Region 6.
9. Comparative table of Military Government to Armistice Control (Estimated) Region 8.
10. Comparative table of Military Government to Armistice Control (Estimated) Region 9.
11. Comparative table of Military Government to Armistice Control (Estimated) Region 7 (National Headquarters).
12. Estimate of Personnel of Region 7 (National Headquarters) for Military Government and Armistice Control including civilian agencies.

This Appendix is INCORRECT (See Planning Directive No 2 - Para 2(...

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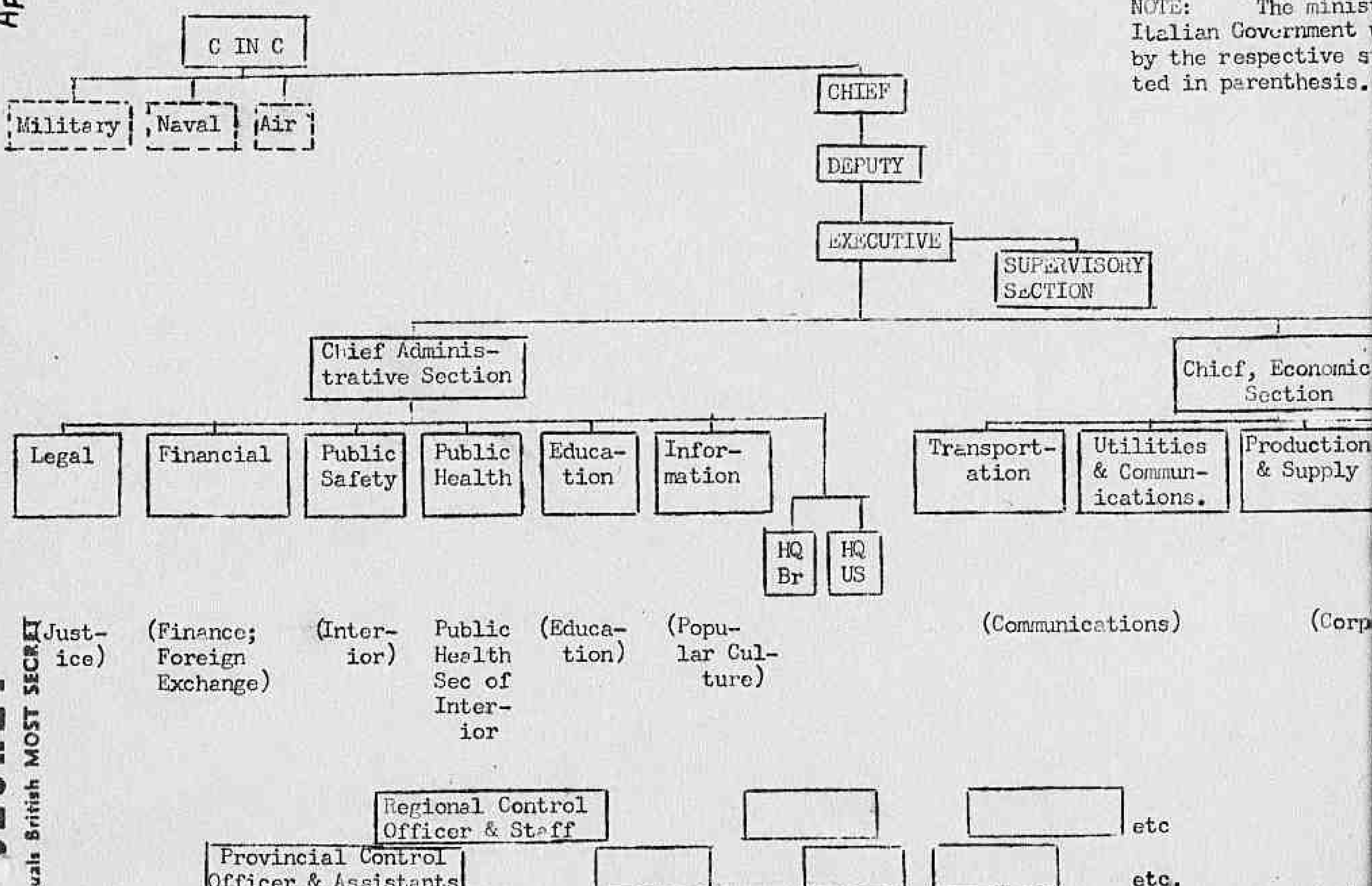
Appendix I.

CHART OF ARMISTICE CONTROL AUTHORITY

NOTE: The minist[...] Italian Government w[...] by the respective st[...] ted in parenthesis.



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This Appendix is INCORRECT (See Planning Memorandum No 2 - Para 2(b))

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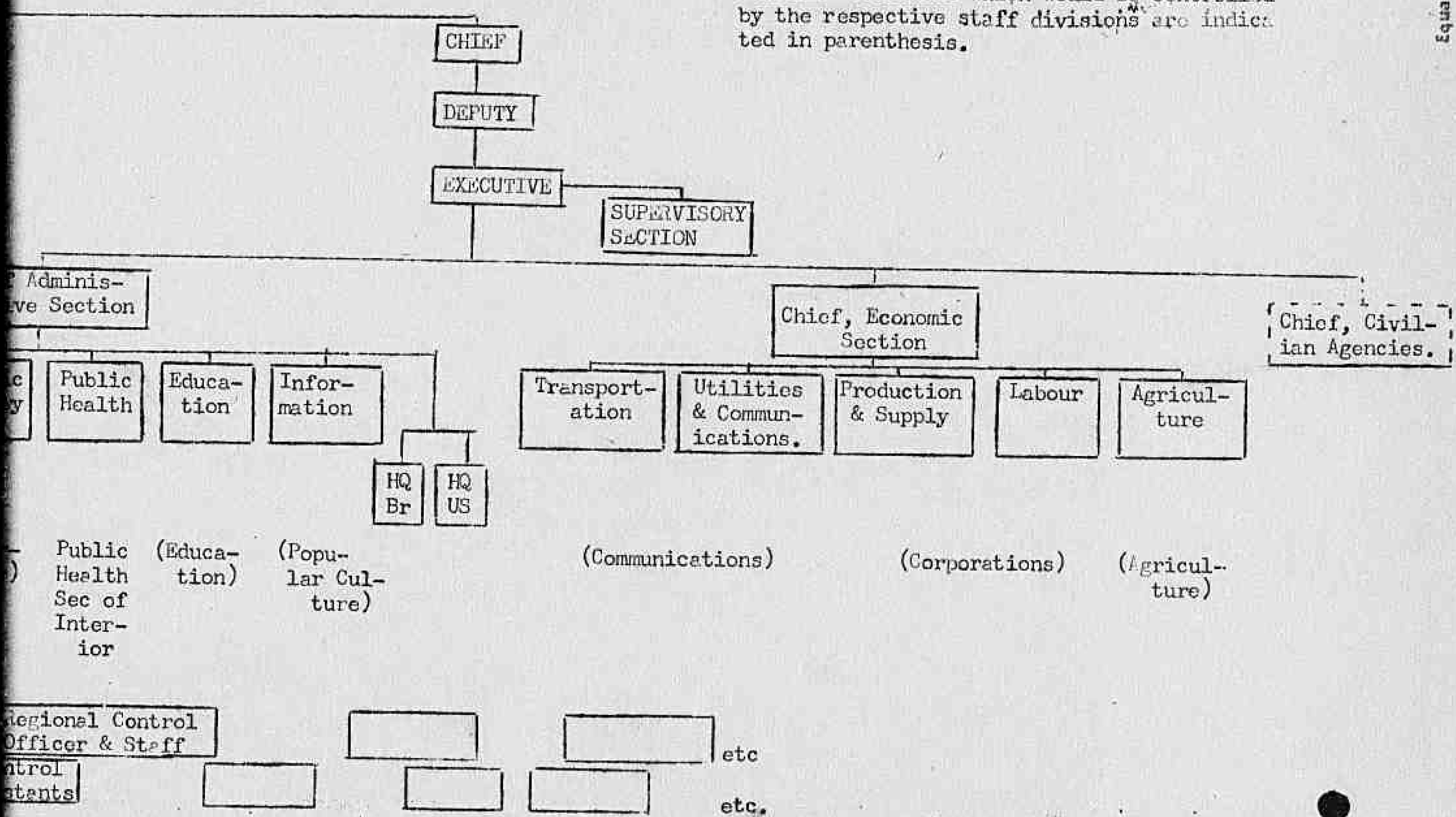
CHART OF ARMISTICE CONTROL AUTHORITY

NOTE: The ministries and agencies of the Italian Government which would be controlled by the respective staff divisions are indicated in parenthesis.



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SUMMARY OF OFFICERS FOR REGIONS MILITARY GOVERNMENT AND ARMISTICE CONTROL AND DIFFERENCES MADE AVAILABLE BY CONVERSION FROM GOVERNMENT TO CONTROL

REGION	OFFICERS MIL. GOVT.	OFFICERS ARMISTICE CONTROL	OFFICERS DIFFERENCE
1	210) Includes 80) at present	62	- 148
2	195) AMG HQ	101	- 94
3	152	76	- 76
4	200	101	- 99
5	135	76	- 59
6	100	26	- 74
7 (Nat HQ)	417	374	- 43
8	150	76	- 74
9	200	101	- 99
AMG HQ		80	+ 80
TOTAL	1759	1073	- 686

NOTES:- 1. Not more than 1395 officers can be deployed at any time. However it is not envisaged that Regions 1 - 9 will all require to be under Military Government at the same time.

2. Personnel are only "available" for Military Government of Regions 1 to 7. Before personnel can be produced for Military Government of Regions 8 and 9, Regions 1 to 6 will have to be wholly or partially converted to Military Control.

3. AMG HQ is required to control and administer Military Government set up in the wake of the advancing combat troops. Personnel for AMG HQ will mostly be obtained from Officers in Regions 1 and 2.

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APPENDIX 3

Comparative table of Military Government

to Armistice Control

Region 1

	Mil. Govt.							Armistice Control						Differencer					
	Brig. Gen.	Cols.	Lt. Cols.	Majors	Capt.	Lts.	TOTAL	Cols.	Lt. Cols.	Majors	Capts.	Lieuts.	TOTAL	Cols.	Lt. Cols.	Majors	Capts.	Lieuts.	TOTAL
Administration	1	1	1	2	4	6	15	1*	1	1	2	2	7	1		1	2	4	8
Legal		1	1	2	3	1	8	1	1	1	1		4			1	2	1	4
Financial		1	2	3	6	3	15		1	1	3	2	7	1	1	2	3	1	8
Public Health		1	3	2	3		9		1	1	1		3	1	2	1	2		6
Public Safety		1	1	1	2		5	1			1		2		1	1	1		3
Agriculture		1	1	2	3	3	10			1	1	1	3	1	1	1	2	2	7
Transportation		1	2	2			5		1	1			2	1	1	1			3
Economics		1	2	2			5	1		1			2		2	1			3
Labor				1	1		2			1			1				1		1
Education				1			1			1			1						
Information				1	1		2			1	1		2						
Property Controller			1	1	2	1	5			1	1		2		1		1	1	3
C.A.Os.		3	13	28	10	9	63		3	6	4	3	16	3	10	22	6	6	47
C.A.P.Os.			7	21	20	17	65		2	3	2	3	10		5	18	18	14	55
Total	1	11	34	69	55	40	210	4*	10	20	17	11	62	8	24	49	38	29	148

2646

* Includes 1 Brigadier or Brig. Gen.

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APPENDIX 4

COMPARATIVE TABLE OF MILITARY GOVERNMENT

TO ARMISTICE CONTROL

REGION 2

	MILITARY GOVERNMENT						ARMISTICE CONTROL						DIFFERENCES					
	Colonels	Lt.Cols.	Majors	Captains	Lieuts.	Totals	Colonels	Lt.Col.s	Majors	Captains	Lieuts.	Total	Colonels	Lt.Cols.	Majors	Captains	Lieuts.	Total
Administration	2*	1	4	5	7	19	1*	1	2	4	3	11	1		2	1	4	8
Legal	1	1	2	3	1	8		1	1	1		3	1		1	2	1	5
Financial	1	2	3	6	5	17	1	1	1	2	2	7		1	2	4	3	10
Public Health	1	3	2	2		8		1	1	1		3	1		1	1		5
Public Safety	1	1	1	2	2	7		1		1	1	3	1		1	1	1	4
Agriculture	1	1	2	2	1	7		1	1	1		3	1		1	1	1	4
Transportation	1	2	2			5	1	1	1			3		1	1			2
Economics	1	2	2			5		1	1			2	1	1	1			3
Labor		1	1			2		1	1			2						
Education			1			1			1			1						
Information			1	1		2			1	1		2						
Property Controller		1	2	3		6		1	1	1		3			1	2		3
C.A.Os.	3	13	25	8	7	56	3	7	13	4	4	31		6	12	4	3	25
C.A.P.Os.		8	15	15	14	52		4	8	8	7	27		4	7	7	7	25
TOTAL	12	36	63	47	37	195	6	21	33	24	17	101	6	15	30	23	20	94

* Includes. 1 Brig.

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APPENDIX 5

COMPARATIVE TABLE OF MILITARY GOVERNMENT

TO ARMISTICE CONTROL

REGION 3

	Military Govt.						Armistice Control						Difference					
	Colonels	Lt. Cols.	Majors	Captains	Lieuts.	Total	Colonels	Lt. Cols.	Majors	Captains	Lieuts.	Total	Colonels	Lt.Cols.	Majors	Captains	Lieuts.	Total
Administration	2*		2	4	5	13	1*		2	1	2	6	1			3	3	7
Legal	1	1	1	1	1	5		1	1		1	3	1			1		2
Financial	1	2	3	2	2	10	1	1	2			4		1	1	3	3	6
Public Health	1	2	2	3		8		1	1	2		4	1	1	1	1		4
Public Safety	1	1	2	3		7	1		1			2		1	1	3		5
Agriculture		1	1	2		4		1		1		2		1	1			2
Transportation		1	2	2		5		1	1	1		3			1	1		2
Economics		2	2	3	2	9		1	1	2	2	6		1	1	1		3
Labor		1	1	2		4			1	1		2		1		1		2
Education			1			1			1			1						
Information			1	1		2			1	1		2						
Property Controller		1	1	2		4			1	1		2		1		1		2
C. A. Os.	1	6	17	21	5	50		2	9	10	3	24	1	4	8	11	2	26
C. A. P. Os.		3	9	10	8	30		2	5	5	3	15		1	4	5	5	15
TOTALS	7	21	45	56	23	152	3	10	27	25	11	76	4	11	18	31	12	76

* Incl. 1 Brig.

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APPENDIX 6

COMPARATIVE TABLE OF MILITARY GOVERNMENT TO ARMISTICE CONTROL

REGION 4

	MIL. GOV. SEC.						ARMISTICE CONTROL						[illegible]RENCE					
	Colonels	Lt Cols.	Majors	Captains	Lieuts.	Total	Colonels	Lt Cols.	Majors	Captains	Lieuts.	Total	Colonels	Lt Cols.	Majors	Captains	Lieuts.	Total
Administration	2*	1	2	4	5	14	1*	1	1	2	3	8	1		1	2	2	6
Local	1	2	2	3		8	1	1	1	1		4		1	1	2		4
Financial	1	2	3	5	1	13	1	1	1	3		6		1	2	2	1	6
Public Health	1	2	3	2		8		1	1	1		3	1	1	2	1		5
Public Safety	1	1	2	3		7	1		1	1		3		1	1	2		4
Agriculture		1	1	2		4			1	1		2		1		1		2
Transportation	1	2	3			6		1	2			3	1	1	1			3
Economics		1	2	2		5		1	1	1		3			1	1		2
Labor		1	1	2		4			1	1		2		1		1		2
Education		1	1	1		3		1		1		2			1			1
Information			1	1		2			1	1		2						
Property Controller		1	2	3	2	8			1	2	1	4		1	1	1	1	4
C.A.Os.	1	17	19	15	10	62	1	9	9	8	5	32		8	10	7	5	30
C.A.P.Os.		6	18	18	15	57		2	9	9	7	27		4	9	9	8	30
Total	8	38	60	61	33	200	5	18	30	32	16	101	3	20	30	29	17	99

2643

* incl. 1 Brig.

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APPENDIX 7

COMPARATIVE TABLE OF MILITARY GOVERNMENT TO ARMISTICE CONTROL

REGION 5

	MILITARY GOVT.						ARMISTICE CONTROL						DIFFERENCE					
	Cols.	Lt.Cols.	Majors	Capts.	Lieuts.	Total	Cols.	Lt. Cols	Majors	Capts.	Lieut.	Total	Cols.	Lt.Cols.	Majors	Capts.	Lieuts.	Total
Administration	2*		3	3	2	10	1*		2	1	1	5	1		1	2	1	5
Legal	1	1	2	2		6		1	1	1		3	1		1	1		3
Financial	1	2	3	5		11	1	1	2	2		6		1	1	3		5
Public Health	1	1	3	1		6		1	1	1		3	1		2			3
Public Safety	1	1	1	1		4		1	1			2	1			1		2
Agriculture		1	1	2		4		1		1		2			1	1		2
Transportation		1	2			3		1	2			3						
Economics		1	2			3		1	1			2			1			1
Labor			1			1			1			1						
Education			1			1			1			1						
Information			1	1		2			1	1		2						
Property Controller		1	1	2		4			1			1		1		2		3
C.A.Os.		6	18	10	6	40		4	11	6	4	25		2	7	4	2	15
C.A.P.Os.		3	12	14	11	40		1	6	7	6	20		2	6	7	5	20
TOTALS	6	18	51	41	19	135	2	12	31	20	11	76	4	6	20	21	8	59

* Incl. 1 Brig.

APPENDIX 8

CO[illegible] CONTROL

[illegible]ion 6

	[illegible]. GOVT.						[illegible] CONTROL						DIFFERENCES					
	Cols.	Lt.Cols.*	Majors	Captains	Lieuts	Total	Cols.	Lt.Cols.	Majors	Captains	Lieuts.	Total	Cols.	Lt.Cols.	Majors	Captains	Lieuts.	Totals
Administration	2		2	[illegible]		7	1*		1	1		[illegible]	1		1	2		4
Legal		1	1			2			1			1		1				1
Financial		1	1			2		1				1			1			1
Public Health		1	1			2			1			1		1				1
Public Safety		1	1			2			1			1		1				1
Agriculture																		
Transportation																		
Economics		2	3	2		7		1	1	1		3		1	2	1		4
Labor																		
Education																		
Information			1			1			1			1						
Property Controller		1	1			2			1			1		1				1
S.[illegible].P.Os.			3	11	15	29			1	2	2	5			2	9	13	24
C.A.Os.		3	18	25		46		3	3	3		9			15	22		37
TOTAL	2	10	~~31~~ 32	41	15	100	1	5	11	7	2	26	1	5	21	34	13	74

* Incl. 1 Brig.

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APPENDIX 9

COMPARATIVE TABLE OF MILITARY GOVERNMENT

TO ~~MILITARY~~ ARMISTICE CONTROL

REGION 8

	Military Govt.						~~Military~~ ARMISTICE Control						Difference					
	Colonels	Lt Cols	Majors	Captains	Lieuts.	Total	Colonels	Lt Cols.	Majors	Captains	Lieuts.	Total	Colonels	Lt Cols	Majors	Captains	Lieuts.	Total
Administration	2*		2	4	5	13	1*		2	1	2	6	1			3	3	7
Legal	1	1	1	1	1	5		1	1		1	3	1			1		2
Financial	1	2	3	2	2	10	1	1	2			4		1	1	3	3	6
Public Health	1	2	2	3		8		1	1	2		4	1	1	1	1		4
Public Safety	1	1	2	3		7	1		1			2		1	1	3		5
Agriculture		1	1	2		4		1		1		2			1	1		2
Transportation		1	2	2		5		1	1	1		3			1	1		2
Economics		2	2	3	2	9		1	1	2	2	6		1	1	1		3
Labor		1	1	2		4			1	1		2		1		1		2
Education			1			1			1			1						
Information			1	1		2			1	1		2						
Property Controller		1	1	2		4			1	1		2		1		1		2
C.A.Os.	1	6	17	21	5	50		2	9	10	3	24	1	4	8	11	2	26
C.A.P.Os.		3	9	9	7	28		2	5	5	3	15		1	4	4	4	13
TOTALS	7	21	45	55	22	150	3	10	27	25	11	76	4	11	18	30	11	74

2640

* Incl. 1 Brig.

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APPENDIX 10

COMPARATIVE TABLE OF MILITARY GOVERNMENT
TO ~~MILITARY~~ ARMISTICE CONTROL

REGION 9

	MIL. GOVT. SEC						ARMISTICE ~~MIL.~~ CONTROL						DIFFERENCE					
	Colonels	Lt Cols.	Majors	Captains	Lieuts.	Total	Colonels	Lt. Cols.	Majors	Captains	Lieuts.	Total	Colonels	Lt. Cols.	Majors	Capts.	Lieuts.	Total
Administration	2*	1	2	4	5	14	1*	1	1	2	3	8	1		1	2	2	6
Legal	1	2	2	3		8	1	1	1	1		4		1	1	2		4
Financial	1	2	3	5	1	13	1	1	1	3		6		1	2	2	1	6
Public Health	1	2	3	2		8		1	1	1		3	1	1	2	1		5
Public Safety	1	1	2	3		7	1		1	1		3		1	1	2		4
Agriculture		1	1	2		4			1	1		2		1		1		2
Transportation	1	2	3			6		1	2			3	1	1	1			3
Economics		1	2	2		5		1	1	1		3			1	1		2
Labor		1	1	2		4			1	1		2		1		1		2
Education		1	1	1		3		1		1		2			1			1
Information			1	1		2			1	1		2						
Property Controller		1	2	3	2	8			1	2	1	4		1	1	1	1	4
C.A.Os.	1	17	19	15	10	62	1	9	9	8	5	32		8	10	7	5	30
C.A.P.Os.		6	18	18	15	57		2	9	9	7	27		4	9	9	8	30
	8	38	60	61	33	201	5	18	30	32	16	101	3	20	30	29	17	99

* incl 1 Brig.

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APPENDIX 11

COMPARATIVE TABLE OF MILITARY GOVERNMENT

AND ARMISTICE CONTROL

REGION 7

	MILITARY GOVT.								ARMISTICE CONTROL								DIFFERENCE					
	Maj. Gen.	Brig Gen.	Colonel	Lt. Col	Major	Capt.	Lieut.	TOTAL	Maj. Gen.	Brig. Gen.	Colonel	Lt. Col.	Major	Capt.	Lieut.	TOTAL	Colonel	Lt. Col.	Major	Capt.	Lieut.	TOTAL
Administration	2	3	2	5	9	9	10	40	2	3	2	5	9	9	10	40						
Legal		1	4	6	9	5		25		1	4	6	9	5		25						
Financial		1	6	14	25	24		70		1	6	12	23	23		65		2	2	1		5
Public Health		1	3	7	14	15		40		1	3	5	13	14		36		2	1	1		4
Public Safety		1	6	6	10	12		35		1	6	6	10	12		35						
Agriculture			2	3	9	6	5	25			2	3	8	5	4	22			1	1	1	3
Transportation		1	4	9	15	15	2	46		1	4	9	15	15	2	46						
Economics			4	4	7	10		25			4	3	6	9		22		1	1	1		3
Labour			2	2	6	5		15			2	2	6	5		15						
Education			1	3	3	2	1	10			1	3	3	2	1	10						
Information*			2	10	13	14	2	41				2	5	6		13	2	8	8	8	2	28
Property Controller			1	3	6	5		15			1	3	6	5		15						
HQ Staff Mil. Admin				2	4	8	16	30				2	4	8	16	30						
G.A.P.Os.																						
	2	8	37	7[illegible]	120	110	36	417	2	8	35	61	117	118	33	374	2	13	13	12	3	43

* Included 3 officers for Italian Foreign Relations
3 " " " Colonial Affairs.
Total 6

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APPENDIX 12.

ESTIMATE OF PERSONNEL OF REGION 7 (NAT HQ) FOR MILITARY GOVERNMENT AND ARMISTICE CONTROL INCLUDING CIVILIAN AGENCIES

	AMG	CONTROL	CIVILIAN AGENCIES	TOTAL
National Govt. or Control) Hqs. Secretariet	70	50	10	60
Legal	25	15	5	20
Financial	70	50 (1)	20 (2)	70
Public Health	40	10	20	30
Public Safety	35	15		15
Agriculture	25	10	15	25
Transportation	46	46	30)	46
Economics & Supply	25	10	30)	70
Labor	15	15		15
Education	10	5		5
Information	41	13	(3)	13
Property Control	15	5		5
Total	417	244	130	374

(1) Exchange Control 20
Currency Dept. 15
Customs & Revenue 5
Bank Control 10
50

(2) Lend Lease 10
Accountants 10

(3) Subject to PWE & Censorship Plans.

(4) Civilian Agency Estimates on initial Basis.

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" " 9	-	Lt. Colonel Fairman
" " 10	-	Major Jackman
" " 11	-	Major Barratt
" " 12	-	Captain Todd
" " 13	-	Captain de Knoop
" " 14 - 25	-	Planning Staffs Tizi Ouzou
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" " 31	-	File
" " 32 - 50	-	Spare

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Paper 7

1 Oct

7

TO: Region 4.
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" 6.
" 8.
" 9.
Finance A.C.
Interior A.C. (Lt Col Spence)
Legal A.C.
J.A.C.S.
G-1.

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Capt S Inniss D.G

For Joint Assistant Chiefs of Staff.

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J.A.C.S.		"	16 - 17
G-1		"	24

2635

Capt. S. D. Elliott

Allied Military Government

Finance Division, Intelligence Section

PRELIMINARY REPORT ON THE ITALIAN FISCAL AND MONETARY SITUATION AS OF MID - 1943

Prepared by

Lt. Col. Bernard Bernstein

and

Lt. Cmdr. Frank A. Southard (USNR)

CONTENTS

Prepared by

Lt. Col. Bernard Bernstein

and

Lt. Cmdr. Frank A. Southard (USNR)

CONTENTS

2634

Allied Military Government

Finance Division, Intelligence Section

PRELIMINARY REPORT ON THE ITALIAN FISCAL AND MONETARY
SITUATION AS OF MID-1943

The following report has been prepared on the basis of the best information available in official Italian publications and from interviews with well-informed Sicilians during the first half of August. Among these Sicilians were Dr. Guido Jung, former Finance Minister of Italy; Professor Pietro Palumbo, banker, economist, and professor of the University of Palermo; Professor Salvatore Abadessa, now retired but formerly associated with the Bank of Sicily and with other financial enterprises; and officials of the Bank of Sicily, including particularly Mr. Capuano, the Director of the Bank. It must be kept in mind that at every step the testimony has been conflicting, and that it has in many cases not been possible to go behind official statistics. However, the general pattern of Italian public Credit, central banking, currency, commercial banking, and the price situation is believed to have been covered with a satisfactory accuracy in the report.

1. Italian Expenditures and Revenues

Italy is not peculiar in that its public finances and its banking system have been profoundly affected and, in fact, governed by the necessities imposed on the Treasury by war expenditures. It is not intended in this report to review and consider in detail the Italian budgets of recent years. It is, however, important to have in mind the general trend of Italian expenditures of the past few years in order to understand what sort of fiscal task confronted the Italian Treasury and the Italian Bank of Issue and commercial banks.

Table 1 shows Italian expenditures and revenues for certain fiscal years since 1935-36. In every year except 1942-43 the figures are official and were published in the Anuario Statistico Italiano. For 1942-43 the figures were taken from the report of the Italian Finance Minister to the Council of Ministers, Aug. 3, 1943, as recorded by radio.

The increase in expenditures has been due almost entirely to the war budget. In 1942-43 the budgeted expenditures for the three war ministries (war, navy, and air) plus those of the Treasury, which consist largely of the debt service and various war subsidies, amounted to 80% of the total budgeted expenditures.

Table 1. Italy: Expenditures and Revenue, 1935-36 to 1942-43.
(figures in billions lire)

Fiscal Year ending June 30	Revenue	Expenditure	Deficit Ordinary	Deficit Extra-ordinary	Total
1935 - 36	20.4	33.0			12.6
1936 - 37	24.7	41.0			16.3
[illegible]	[illegible]	[illegible]			[illegible]

now retired but formerly associated with the Bank of Sicily [illegible] cial enterprises; and officials of the Bank of Sicily, including particularly Mr. Capuano, the Director of the Bank. It must be kept in mind that at every step the testimony has been conflicting, and that it has in many cases not been possible to go behind official statistics. However, the general pattern of Italian public Credit, central banking, currency, commercial banking, and the price situation is believed to have been covered with a satisfactory accuracy in the report.

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Fiscal Year ending June 30	Revenue	Expenditure	Deficit Ordinary	Deficit Extra-ordinary	Total
1935 - 36	20.4	33.0			12.6
1936 - 37	24.7	41.0			16.3
1937 - 38	27.5	38.6			11.1
1938 - 39	27.6	39.8			12.2
1939 - 40	32.3	60.4			28.1
1940 - 41	34.0	98.0	6.3	57.7	64.0
1941 - 42	41.0	118.0	6.0	71.0	77.0
1942 - 43	49.0	135.0	5.3	81.0	86.3

2633

Figures given by the Finance Minister to the Council of Ministers, Aug. 5, 1943.

2. Italian War-Finance: Structure and Amount of the Debt.

(a) The Amount of the Debt. The only official statement of the State debt of Italy on a year-by-year basis is that found in the so-called "Patrimonial Account" of the Treasury. This account purports to be a complete total of the consolidated, perpetual, redeemable, and miscellaneous debt. In table 2 is given the total of the debt as stated in that account, together with the estimates of the debt at the end of the fiscal year 1942-43, taken from table 4.

Table 2. Italy: Growth of the National Debt
(amounts in billions lire)

Year ending June 30	Total consolidated, perpetual, redeemable, and miscell. debt
1936	133
1937	154
1938	163
1939	175
1940	210
1943 (est.°)	426

°See table 4.

How complete and inclusive these figures are cannot be determined with certainty. However by capitalizing the amount of the annual interest charges, as shown in table 5, at 4 per-cent -- which is approximately the average rate of interest on the total debt -- and comparing the resulting amounts with those given in table 2, the conclusion seems warranted that the figures in table 2 for the years 1936 through 1940 are a comprehensive and inclusive statement of the National debt. This comparison is shown in table 3.

Table 3. Italy: The National Debt as Officially Reported and as Calculated
(amounts in billions lire)

Year ending June 30	Debt as Officially Reported	Calculated Debt on basis of Capitalization of interest at 4%
1937	154	141
1938	163	157
1939	175	169
1940	210	164
1941	n.a.	220
1942	n.a.	343
1943	426°	388

°As reported by Finance Minister, August, 1943

It is impossible to reconcile the differences between the two debt totals in table 3. But they correspond sufficiently closely to be accepted as a reasonably accurate portrayal of the trend and amount of the Italian debt.

(b) The Structure of the Debt. At the end of the fiscal year 1942-43 the National Debt of Italy was, according to the best available information and estimates, comprised as is shown in table 4.

Table 4. Italy: Composition of the National Debt at the end of the year 1942-43 (amounts in billions lire)

Type of Debt	Total Amount June 30'43	Total Amount July 31'43

How complete and inclusive these figures are cannot be determined with certainty. However by capitalizing the amount of the annual interest charges, as shown in table 5, at 4 per-cent — which is approximately the average rate of interest on the total debt — and comparing the resulting amounts with those given in table 2, the conclusion seems warranted that the figures in table 2 for the years 1936 through 1940 are a comprehensive and inclusive statement of the National debt. This comparison is shown in table 3.

Table 3. Italy: The National Debt as Officially Reported and as Calculated (amounts in billions lire)

Year ending June 30	Debt as Officially Reported	Calculated Debt on basis of Capitalization of interest at 4%
1937	154	141
1938	163	157
1939	175	169
1940	210	164
1941	n.a.	220
1942	n.a.	343
1943	426°	388

°As reported by Finance Minister, August, 1943

It is impossible to reconcile the differences between the two debt totals in table 3. But they correspond sufficiently closely to be accepted as a reasonably accurate portrayal of the trend and amount of the Italian debt.

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Table 4. Italy: Composition of the National Debt at the end of the year 1942-43 (amounts in billions lire)

Type of Debt			Total Amount June 30'43	Total Amount July 31'43
Long-term debt				
Consols and redeemables	80			
Guaranteed issues	7			
Total			87	87
Intermediate-term debt	June	July		
9-year notes	122	122		
5-year notes	12	12		
Total			134	134
Short-term notes				
1-12 months			52	51
Current account debt to central banks, banks, and other financial institutions			55	53
Anticipation account with Central Bank			48	58
Deferred payments, principally certificates of credit issued to large corporate creditors of the State			34	34
State note issue (est.)			16	16
Total			426	445

It will be seen that by mid-1943 the National Debt of Italy consisted overwhelmingly -- almost 80% -- of maturities of 9 years of less. The development of this debt structure, and some of the factors responsible for it, will be discussed in the next section, on Italian war finance. It first seems desirable to identify and describe the various sorts of debt shown in the above table.

(1) The long-term debt consists principally of four large issues:

Designation	Interest	Issued	Outstanding
Consol. rentes	3 ½	1906	Lire 8,014,275,000
Redeemable	3 ½	1934	18,932,000,000
Consol. rentes	5	1935	43,096,276,000
Redeemable	5	1936	6,500,000,000
Total outstanding, four issues			76,542,551,000

These four issues comprise 95 percent of the direct long-term national debt -- excluding the Postal Savings bonds (which occupy a peculiar position discussed later) -- and 91 percent of both the direct and guaranteed debt, as shown in table 4. It will be noticed at once that there have been no issues since the great conversion operations of 1934-1935.

The largest conversion, that of 1935, was designed to take care of the Redeemable 3½s of 1934-78, but also to provide for the expenses being incurred in Africa. The Consolidated Rentes of 1935 were issued at 95, but the value of the Redeemable 3½s was set at 80 per 100 Lire for purposes of conversion. Subsequently owners of Treasury 5's of 1944, National Loan 4½s and 5's and certificates of credit (for which see table 4 and the discussion below in this section) were allowed to convert into this issue at par. These rentes of 1935 ranged in price between 96 and 88 (annual high and low) on the Milan exchange, and in January, 1943 were quoted at 90. These Rentes characteristically have no maturity date.

The largest of the Redeemable issues -- floated in 1934, to be amortized in 1979 -- was designed to convert the 5 percent issues of 1917, 1918, and 1920, and the Littorio Loan of 1926. In order to effect this conversion from a 5 percent to a 3½ percent bond at a time when the Government was unable to borrow at long term for less than 5 percent and probably not much under 5½ percent net, the new 3½s were valued at 80 and the old 5's at 95 for conversion purposes. These bonds fluctuated from 63 to 84 between 1935 and 1940 on the Milan exchange and in January, 1943, were quoted at 80.

The third large long-term operation in the middle - Thirties was primarily designed to raise funds for the development of the African Empire. In the form of Redeemable 5's, with a schedule of amortization to be completed by 1963, this curious issue bore some similarity to a capital levy. All owners of land or buildings in Italy were obliged to subscribe in an amount equal to 5 percent of the value of their immovable possessions, if this exceeded Lire 10,000.

The State-guaranteed bonds, amounting -- as is shown in table 4 -- to about Lire 7 billion, consist of 12 Major issues the largest of which is the Consolidated Public Works 5's, representing various issues between 1921 and 1936. The others are chiefly public works issues of Rome and Genoa, and issues of the Institute for Industrial Reconstruction (I.R.I.) especially to finance the State-

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(2) The Intermediate-term debt consists solely of 7 issues of 9-year Treasury Bonds, maturing between December, 1943 and October, 1951, and totaling Lire 122 billion, and one issue of 5-year Treasury Bonds amounting to Lire 12 billion and maturing in 1948. The first of the 9-year bonds was issued at a coupon rate of 4 percent. Thereafter they all bore the rate of 5 percent until the Lire 25 billion issue of October, 1942, in which the rate was cut to 4 percent. Apparently this flotation was not very popular; at any rate the first financing of 1943 was on a 5-year, 5 percent basis, and only Lire 12 billion were absorbed. The significance of this failure of the intermediate-term market for Government bonds will become apparent in the next section of the report.

These intermediate-term bonds present interesting characteristics. Ignoring two small issues in 1934 and 1935, these bonds have been used to finance the present war, with flotations as follows:

Date of Issue	Mat'ty	Total Amount in Lire	Rate of Interest
Feb.'40	1949	28,000,000,000	5%
Feb.'41	1950	19,000,000,000	5%
Oct.'41	1950	21,000,000,000	5%
Apr.'42	1951	25,000,000,000	5%
Oct.'42	1951	25,000,000,000	4%
Feb.'43	1948	12,000,000,000	5%
Jul.'43	1948	12,000,000,000	5%
Totals			
9-year bonds		118,000,000,000	
5-year bonds		24,000,000,000	
Total		142,000,000,000	

In general, the 9-year 5's were issued fairly close to par — i.e., about 97.50. But when, in October, 1942, the Finance Minister decided to take a chance on an issue of 9-year bonds with an interest rate of only 4 percent, he was obliged to offer them at 92. The public reaction apparently, as has been mentioned above, was not very good, which probably explains the reversion to 5 percent in the first issue of 5-year bonds early in 1943.

Actually, the effective cost of the funds raised by the sale of these 5- and 9- year bonds cannot be calculated solely on the basis of issue price and nominal interest rate, because the bonds carry, in addition, a lottery feature. To make this clear, the premium privilege of the 9-year 4's of 1942 may be used as an example. This issue is divided into series of 1 billion lire each, the series being designated by letters. Every 6 months there is a drawing of 58 numbers in each series, which entitle the owners of those bonds to receive prizes or premia beginning with 1 million lire and totalling 4,800,000 lire per year. This drawing does not result in the retiring of the bonds represented by the numbers drawn; the drawing is solely for the purpose of determining the distribution of premia. Consequently, taking into account the amount of the total annual premium and the initial discount at which the bonds were sold, the effective rate of interest on this 4 percent issue of 9-year bonds was about 4.85 per cent per annum. On the basis of the same calculation, the 9-year 5's had been costing the Government 5.65 percent per annum in effective interest.

On at least one occasion these intermediate-term bonds have been used to effect a funding of the floating debt. Of the issue of 1940, 12 billion were handed to the Casa Depositi e Prestiti, to extinguish a part of the Treasury's debt on account of advances. The Casa, as will be explained in greater detail in connection with the discussion of Postal Savings, receives funds from several sources--chief of which is the Postal Savings System-- and makes advances, especially to the Treasury.

(3) The short-term notes, or "Ordinary Bonds of the Treasury", were apparently re-introduced into Italian public finance in 1936-37 as a means of raising funds to cover expenses arising in the African Empire. There is no direct information as to the outstanding amounts of these short-term notes year by year. However, by capitalizing at a rate of $4\frac{1}{2}$ percent, the interest payments made or budgeted on account of these notes, as shown in table 5, the following estimates are obtained:

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Year	Amount Outstanding
1936-37	1.6 billion lire
1937-38	6.1 " "
1938-39	10.5 " "
1940-41	14.3 " "
1941-42	21.2 " "
1942-43	46.5 " "

After the tremendous increase of about 17 billion lire in the outstanding amount of the short-term Treasury notes during 1941-42, the money-market's willingness to absorb additional amounts apparently declined somewhat during 1942-43 - - in any case the additional amount budgeted to cover interest charges for 1942-43 called for an increased issue of only 6.5 billion. However, as is shown in table 4, the Finance Minister reported an outstanding amount of 52 billion of short-term notes at the end of June, 1943, although they fell off by about 1 billion during July. This apparent issue of 12 billion during 1942-43 may be in part the result of errors in estimating the outstanding amount at the end of 1941-42. An interest rate of 4.5 percent was used in that capitalization process, as was explained above. Actually, the effective rate or average rate may have been lower, which would yield a larger total outstanding amount at the end of 1941-42. The interest rates on the issue of July, 1942, ranged from 3.25 percent on the 1 and 2 month notes to 5 percent on the 12 month notes. In any case, it appears that somewhere between 9 and 12 billion were sold in 1942-43, compared with about 19 billion in the previous year.

In general, as will be explained in more detail in the section devoted to the holders of the public debt, these short-term notes are probably chiefly in the portfolios of the larger banks.

(4) The Treasury's "current account" debt is in two forms: First is the Treasury's current or "anticipation" account with the Central Bank -- the Banca d'Italia. The second is the debt represented by advances made to the treasury in the form of deposits by the Banca d'Italia and the Banco di Napoli (the latter being an historical vestige of that bank's former position as a bank of issue), and by such Governmental institutions as the Casa Depositi e Prestiti, the National Insurance Institute, and the various State social insurance organizations. Of these latter institutions, the Casa Depositi e Prestiti is the most important.

How large this debt is, and at what rate it has grown during the last half-dozen years, are questions not admitting of altogether satisfactory answers. In his report of August 5, 1943, the Finance Minister stated that the Treasury's debt to the Banca d'Italia at the end of June, 1943, amounted to 48 billion lire and that one month later it had increased by another 10 billion. The Finance Minister made it clear, however, that this was the relatively recent debt of the Treasury to the Central Bank. It may, therefore be the case that 12 to 15 billion in short-term notes are held by the Central Bank in return for advances made prior to 1941. At the end of 1940 the Banca d'Italia reported having advanced 15 billion to the Treasury against short-term notes. At the same time, the Finance Minister reported that the Treasury's debt on account of advances by various financial institutions amounted, at the end of June, 1943, to 55 billion and that a month later it had declined to 53 billion.

It seems probable that the Treasury pays the Central Bank about 2 percent on the balance of the anticipation account. The other class of advances -- to the Treasury from various financial institutions, chiefly Governmental -- probably involve interest payments by the Treasury of about 5 percent. Using, as a guess, the figure of 3.5 percent for the two combined, and capitalizing the interest item for these advances given in table 5, the following estimates of the growth of this debt are obtained:

Fiscal Years	Total outstanding (in billions lire)
1933-34	16.5
1936-37	20.4
1937-38	26.4
1938-39	36.6
1939-40	34.3
1940-41	35.0
1941-42	50.5

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Fiscal Years	Total outstanding (in billions lire)
1933-34	16.5
1936-37	20.4
1937-38	26.4
1938-39	36.6
1939-40	34.3
1940-41	35.0
1941-42	50.5
1942-43	84.0

Actually, however, as was indicated above, the total Government debt to the Banca d'Italia and to various financial institutions on anticipation or current account amounted, at the end of June, 1943, to about 103 billion lire. Therefore the above table should be used only to indicate the rate of growth of this portion of the public debt, rather than its actual amount from year to year.

26631

(5) Deferred payments are a form of Italian State debt which has apparently grown to significant proportions only during the last two years. The principal form of deferred payment is the "certificate of credit" which is issued by the Government to such large creditors of the State on war-account as Pirelli, Fiat, Montecatini, etc. These certificates are understood to have a maturity of 10 years. In most instances they are apparently promptly discounted by the Consorzio per sovvenzione su valore industriale in Rome, which is in some manner controlled by the Bank of Italy and the larger commercial banks, and which gets its funds chiefly from the Bank of Italy. The net result is therefore simply to hold the Treasury's debt to the Central Bank down to a smaller figure, and to put onto

the large corporations a higher apparent rate of interest or discount than the Government would have to pay. This higher rate may, of course, be absorbed in the added price of the war materials delivered to the Government. The Finance Minister stated in August that outstanding "deferred payments" amounted to 34 billion lire.

(6) The Postal Savings bonds and deposits are the last form of Government debt which need be described. The statistical position of the Postal Savings system is shown below:

Year-end	Bonds	Deposits	Total
	(amounts in billion lire)		
1929	n.a.	n.a.	11.8
1932	n.a.	n.a.	17.0
1936	13.8	7.4	21.2
1938	20.7	8.5	29.2
1939	23.8	8.2	32.0
1940	28.3	8.8	37.1
1942	45.0	9.4	54.5

The Postal Savings bonds are a special issue which is sold at par in denominations beginning with 100 lire, and which accumulates interest at the rate of 5 percent per annum. The bonds bear no maturity date, but may be redeemed at any time, although interest accrues only at the end of the first year. The interest is obtained by redeeming a bond; in most such instances it appears that immediate re-investment of the principal sum occurs.

Postal Savings deposits are the poor man's bank account. Deposits are made and withdrawn by means of a deposit book which, in the case of illiterate people, is made out to the bearer. The deposits pay only 2.5 percent, which explains why about 85 percent of total postal savings are in the form of bonds.

The receipts of the Postal Savings System are handed over to a State-owned institution called the Cassa di Depositi e Prestiti which invests it in various forms of public debt, including Government bonds of various sorts, advances to the Treasury, current account with the Treasury, and advances to provinces and communes.

It will be noted that the Postal Savings bonds and deposits are not included in the public debt statement as given in Table 4, although they are admittedly an obligation of the State. The reason for this is that the entire receipts of the Postal Savings System is deposited with, and the funds needed by the System are obtained from, the Casa Depositi e Prestiti. This organization -- State-owned -- in turn makes advances to the Treasury and various other governmental organizations or subdivisions. Since the Treasury's debt to the Casa is shown in table 4, to show the Postal Savings bonds and deposits separately would result in double counting.

(c) Italian war-finance as revealed by the trend of the public debt. In the course of the immediately preceding analysis of the structure and development of the national debt a good deal has been said about the way in which various forms of debt have been used by the Treasury in recent years to finance the war. Table 5 approaches the question of Italian war-finance from the viewpoint of the annual

1936	13.8	7.4	21.2
1938	20.7	8.5	29.2
1939	23.8	8.2	32.0
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The table reveals two interesting facts: (1) The war has been financed by progressively shorter-term obligations, and there has been no recourse to long-term issues. (2) The Government's estimates of the total amount of the interest charges for the forthcoming fiscal year and of the type of obligation the issue of which would be increased, are conspicuously inaccurate.

That the war -- and, in fact, the entire African venture of recent years -- has been financed entirely by intermediate and short-term debt is clearly indicated. The amount of interest budgeted for long-term debt service charges in 1942-43 was the lowest for any year since 1937-38.

The principal fiscal resource -- aside from taxation, which raised only the relatively small amount shown in table 1 under "ordinary revenues" (but which includes income from monopolies, lotteries, and a few other miscellaneous non-taxation sources) -- since the end of the fiscal year 1939-40 has been the intermediate-term 5- and 9-year Treasury bond, described in detail earlier. Interest

0975

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TABLE 5. ITALY: INTEREST CHARGES ON THE NATIONAL DEBT, FOR SELECTED YEARS
(AMOUNTS IN MILLIONS LIRE)

Type of Debt	1933-34 actual.	1936-37 actual.	1937-38 actual.	1938-39 actual.	1939-40 actual.	1940-41 actual.	1941-42 Budgetted	1941-42 Estimated actual.
Long-term bonds	3,231	3,610	3,782	3,764	3,764	3,677	3,580	3,580
Intermediate 5 & 9 year	585	1,020	985	1,010	915	2,674	2,500	5,300
Short term notes 1 & 12 mos.	1	90	273	473	646	955	1,800	1,800
Debt of Central Bank and Various other Finan. Inst.	576	715	925	1,288	1,207	1,231	1,770	1,770
Miscellaneous	217	214	307	240	221	258	258	258
TOTAL	4,609	5,649	6,272	6,775	6,753	8,795	9,908	12,708

1 Included in miscellaneous.

2 Increase due to maturing "certificate of credit" issued to pay large war-contract

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2630

TABLE 5. ITALY: INTEREST CHARGES ON THE NATIONAL DEBT, FOR SELECTED YEARS
(AMOUNTS IN MILLIONS LIRE)

	1936-37 actual.	1937-38 actual.	1938-39 actual.	1939-40 actual.	1940-41 actual.	1941-42 Budgetted	1941-42 Estimated actual.	1942-43 Budgetted	1942-43 Estimated actual.	1943-44 Budgetted
	3,610	3,782	3,764	3,764	3,677	3,580	3,580	3,569	3,569	3,599
	1,020	985	1,010	915	2,674	2,500	5,300	5,860	7,000	7,860
	90	273	473	646	955	1,800	1,800	2,100	2,100	2,300
	715	925	1,288	1,207	1,231	1,770	1,770	2,000	2,600	2,300
	214	307	240	221	258	258	258	326 a	326	408
	5,649	6,272	6,775	6,753	8,795	9,908	12,708	13,855	15,595	16,467

ncluded in miscellaneous.

ncrease due to maturing "certificate of credit" issued to pay large war-contractors charges on this form of debt climbed sharply from less than 1 billion for the year 1939-40 to about 7 billion in the fiscal just ended. But, as has been explained before, this resource began to fail early in 1943. Whether this failure was due — as some responsible Sicilians have alleged — to public resentment which greeted the issue of 5-year 5's just a few months after the interest rate on an issue of 9-year bonds had been cut from 5 to 4 percent; or whether it was due to a more complicated money-market situation, has not yet been determined. In any case, the Finance Minister just before the fall of the Mussolini Government had been obliged, during the first half of 1943, to find other means of financing his deficit.

Apparently, simultaneously with the shrinkage in the capacity of the intermediate-term market, there occured such a decline in the amount of short-term notes purchased by banks and others (principally large corporations) as to involve a decided decrease (from about 20 billion in 1941-42 to somewhere between 9 and 12 billion in 1942-43) in the new issue absorbed by the money market in 1942-43, and an actual net increase of about 1 billion in July, 1943, in the total amount outstanding, as was explained in the preceding section.

The net effect of these three conditions -- that is, lack of a long-term market, and the partial failure of the intermediate and short-term markets — sent the Government into the Central Bank on a rapidly increasing scale.

Table 6 shows, for the fiscal year 1942-43, the manner in which the Treasury covered its deficit.

Table 6. Italy: Deficit of 1942-43, and Estimated manner of meeting it (amounts in billions lire)

Estimated deficit, 1942-43		86
Covered by:		
New issue of 5- and 9-year Treasury bonds	47	
Increase in State note-issue (estimated)	3	
Certificates of credit	3[c]	
Short-term notes	9 to 12[cc]	
Remainder, covered principally by recourse to the Central Bank	21 to 24	
Total		86

[c]The par amount of these 10-year certificates of credit issued during the year to big industrial creditors of the State was possibly as much as 20 billion lire. But only the portion of total outstandings (possibly 34 billions) of such deferred payments as mature during the year is included in the expenditures. Hence the above estimate.

The deficit may in fact have been larger than 86 billions. In any case, the growth in the Government's debt to the Central Bank and to various financial institutions on current and anticipation account was considerable larger than the 24 billion lire indicated above.

The inflationary effects of this financial program -- if it can be called that -- are so clear that they need little discussion. As later sections of this report will show, money in circulation has been rapidly increasing, as have bank deposits. Consequently the failure of the Government to soak up a larger intermediate-term market, there occured such a decline in the [illegible] term notes purchased by banks and others (principally large corporations) as to involve a decided decrease (from about 20 billion in 1941-42 to somewhere between 9 and 12 billion in 1942-43) in the new issue absorbed by the money market in 1942-43, and an actual net increase of about 1 billion in July, 1943, in the total amount outstanding, as was explained in the preceding section.

The net effect of these three conditions -- that is, lack of a long-term market, and the partial failure of the intermediate and short-term markets -- sent the Government into the Central Bank on a rapidly increasing scale.

Table 6 shows, for the fiscal year 1942-43, the manner in which the Treasury covered its deficit.

Table 6. Italy: Deficit of 1942-43, and Estimated manner of meeting it (amounts in billions lire)

Estimated deficit, 1942-43		86
Covered by:		
New issue of 5- and 9-year Treasury bonds	47	
Increase in State note-issue (estimated)	3	
Certificates of credit	3[o]	
Short-term notes	9 to 12[oo]	
Remainder, covered principally by recourse to the Central Bank	21 to 24	
Total		86

[o]The par amount of these 10-year certificates of credit issued during the year to big industrial creditors of the State was possibly as much as 20 billion lire. But only the portion of total outstandings (possibly 34 billions) of such deferred payments as mature during the year is included in the expenditures. Hence the above estimate.

The deficit may in fact have been larger than 86 billions. In any case, the growth in the Government's debt to the Central Bank and to various financial institutions on current and anticipation account was considerable larger than the 24 billion lire indicated above.

The inflationary effects of this financial program -- if it can be called that -- are so clear that they need little discussion. As later sections of this report will show, money in circulation has been rapidly increasing, as have bank deposits. Consequently the failure of the Government to soak up a larger portion of the war-swollen national income either by taxation or by the sale of securities, could have no other consequences than to hasten the rise in commodity prices. The testimony of competent Sicilians is to the effect that neither the tax policy nor the credit policy of the Treasury have been skillful or energetic. Subsequent reports will attempt to examine the possibility of increased tax revenues.

The Government has not attempted forced savings on any systematic basis. For a brief period purchases of corporation securities had to be matched by investment in Government bonds, but the adverse effects on the securities market caused the withdrawal of this requirement. Otherwise the Government contented itself with heavy taxes on property transfers and on the increase in value of securities at the time of their transfer, in an effort to discourage investment in forms other than Government obligations. At the same time various sorts of pressure were applied on banks and other corporate bodies to induce them to purchase Government obligations. In particular, industrial enterprises enjoying war contracts were expected to invest some of their working capital in Government short-term notes. How effective these measures were cannot, of course, be measured. It is the opinion of competent Sicilians that they had relatively little effect.

Whether the Government has actually reached the limit of its borrowing power is doubtful. Certainly dislike of the war and distrust of the Government during the last 6 or 8 months must have played a very large role in discouraging investment in Government securities. On the other hand, an interest burden of 15 to 20 billion lire should not be beyond the capacity of the Italian Treasury once war expenses have been cut off, and the shift to peacetime production has been made. It is true that an interest burden of such proportions would absorb from a half to two-thirds of the ordinary revenues of recent years (see table 1). But it is apparently the case that the Italian Government has not proceeded energetically with taxation.

Any future Italian Government will have to tackle resolutely the task of consolidating and funding the debt. Most urgent will probably be the short-term notes, since the 5- and 9- year bonds do not begin to mature in large amounts until 1948 and the debt to the Central Bank can presumably be carried indefinitely in its present form once the Treasury can stop its continued and increasing demands on that institution.

(d) Holders of the National Debt. The information which has so far been obtained is not complete enough to permit an accurate division of the holders of the national debt between institutions and individuals. The following table gives such estimates as can now be made. A subsequent report will submit revisions.

Table 7. Italy: Estimated Distribution of the National Debt, end of June 1943 (amounts in billions lire)

Type of Debt	Outstanding	Held by Institutions	Held by Public
Long and Intermediate term	221	80	141
Short-Term	52	52	-
Deferred Payments	34	30	4
Current acc't debt to financial inst.	55	55	-
Central Bank anticipation acc't with treasury	48	48	-

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Short-Term	52	52	-
Deferred Payments	34	30	4
Current acc't debt to financial inst.	55	55	-
Central Bank anticipation acc't with treasury	48	48	-
Totals	410 a	265	145
Percent of total			
Long and Intermediate term		36	64
Total Debt		65	35

a Excluding the State note issue. See Table 4.

The principal sector of uncertainty concerns the distribution of the long and intermediate term debt. In table 8 is shown estimates of the institutional holdings of national long and intermediate term debt for the three years 1937 to 1939. The list of institutions is believed to be substantially complete. During three years the national long- and intermediate term debt

26629

Table 8. Italy: Institutional Holdings of the National Debt (amounts in billions lire)

Institutions	1937	1938	1939
Comercial banks[1]	12.0	12.0	13.0
Savings Banks[2]	9.0	8.5	8.6
Life & indemnity insurance company[3]	4.8	5.0	5.5
Bank of Italy[4]	4.5[5]	4.8	3.8
National Fascist Institute for Social Insurance[6]	6.9	7.2	7.7
Various State social insurance organizations	5.2	5.4	5.7
Total	42.4	42.9	44.3

1 Estimated portion of Government securities contained in holdings of bonds and short-term notes. Deposit in Treasury not included.

2 Total holdings of bonds; all understood to be Government securities.

3 Estimated portion of capital and reserves invested in Government securities.

4 Own holdings of Government securities, and advances against Government securities. Does not include the Government's anticipation account with the Bank.

5 Estimated.

6 Bartial figures only; data for some subdivision not available.

was outstanding to an amount of roughly 100 to 108 billion lire. It therefore appears that during those three years somewhere around 40 percent of the long- and intermediate-term debt was institutionally held, the balance being in the hands of the public.

Since that time debt in this category has increased to approximately 221 billion lire, and short-term notes increased from about 10 billion in 1939 to about 52 billion on June 30, 1943. There is considerable evidence that the larger banks were investing in the short-term debt rather than the long and intermediate-term debt of the State. In general, therefore, the estimate of institutional holdings of the long- and intermediate-term debt given in table 7, constituting a doubling in three years, seems reasonably accurate.

Relatively small as they are, the institutional holdings of Government long- and intermediate-term debt are of vital importance to the insurance enterprises of Italy -- both public and private. The banking system, including the Central Bank, is primarily concerned with the short-term and current account debt of the State.

[illegible] held by institutions as shown in table

Various State social insurance organizations	5.2	5.4	5.7
Total	42.4	42.9	44.3

[1] Estimated portion of Government securities contained in holdings of bonds and short-term notes. Deposit in Treasury not included.

[2] Total holdings of bonds; all understood to be Government securities.

[3] Estimated portion of capital and reserves invested in Government securities.

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[5] Estimated.

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The portion of the total debt held by institutions as shown in table 7 -- 65 percent -- is to some extent overstated. This is due to the fact that the public, by holding Postal Savings bonds and deposits, is providing a considerable part of the funds advanced to the Treasury by the Casa Depositi e Prestiti and appearing in table 7 under the heading "Current account debt to Financial institutions". What can be said, however, is that the greater part of the long- and intermediate-term debt is held by the public and the greater part of the short-term debt of various sorts by institutions.

3. The Italian Central Bank and Currency Circulation

The Banca d'Italia is the Central Bank of Italy. Its capital of Lire 300 million is entirely owned by the various financial institutions of Italy -- in the following proportions at the end of 1940:

Type of institution	Number	Shares owned
Savings banks	79	Lire 184,736
Commercial banks	11	68,764
Social insurance	1	15,000
Insurance	10	31,500
Total	101	Lire 300,000

Nevertheless, the Banca d'Italia is patently fully responsive to the wishes of the Italian Treasury.

The principal functions of the Banca d'Italia are these: 1. It has a monopoly of the note issue in denominations larger than 10 lire. 2. It makes advances to the Treasury and acts as agents of the Treasury. 3. It receives deposits from member banks and other financial institutions, and sells domestic exchange instruments (vaglia cambiari) and drafts (assegni circolari) to member banks and others. 4. It rediscounts commercial paper for member banks -- since 1936 it has not offered this facility to other institutions or corporations or to individuals. 5. It makes advances against Government securities to anyone -- institutions or individuals.

These various operations are reflected in table 9, which shows the balance sheet of the Banca d'Italia for the latest 4 years for which they are available together with estimates for mid-1943. There are three principal aspects of these balance sheets which should be noted: the deposits at interest, the note circulation, and the Treasury's anticipation account.

Although the Banca d'Italia is a bankers' bank, it is not in any real sense a central reserve bank. The member banks were not, until October, 1942, obliged by law to maintain any deposits in the Banca d'Italia. They did voluntarily keep small deposits there, as the balance sheets show. These deposits were useful as a ready means of obtaining currency, but they were not essential for that purpose, since the Banca is willing to make advances to banks against Government bonds. It will be noted that in the four years shown in table 9 these advances were relatively large, but were not increasing. Since October, 1942, the banks have been required to keep in the Banca d'Italia an amount equal to 75 percent of the increase in their deposits, month by month, minus the increase in the given bank's deposit with the Treasury and minus any financing of war industry done by the bank in the month. This is a very broad formula, and there is no information to show what deposits were made.

That the note circulation and the Treasury's anticipation account are closely related can be seen at once by an examination of table 9. The year-by-year increase in the Treasury account 1937-1940 was

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That the note circulation and the Treasury's anticipation account are closely related can be seen at once by an examination of table 9: The year-by-year increase in the Treasury account 1937-1940 was 2 billion, 6 billion, and 7 billion; in the same period the note circulation increased 1 billion, 6 billion, and 7 billion. This close relationship has continued down to the present.

TABLE 9 : ITALY : Balance Sheets of the Central Bank
for the years 1937-1940
(Amounts in billions lire)

ITEM	1937	1938	1939	1940	1943a
ASSETS					
Reserve (gold and for exch.)	4.0	3.8	3.1	2.3	1.5
Gold held abroad for State	1.8	1.8	1.8	1.8	1.8
Cash	.6	.5	.8	1.0	1.5
Rediscount Portfolio	2.5	3.7	4.8	4.8	2.5
Advances, chiefly against Government bonds	4.5	3.7	3.0	3.5	6.5
Current acct. of the State	.1	.1	.1	.1	.1
Advances to Conzor. Suvvenzione					34.0b
Institute for Industrial Reconstruction; advances to	4.7	4.7	4.7	4.7	4.7
Treasury anticipation account					
Temporary	1.0	1.0	1.0	1.0	1.0b
Extraordinary		2.0	8.0	16.0	57.0b
Miscellaneous	1.3	1.5	1.5	3.2	3.2
Total Assets	21.3	23.6	29.6	39.2	113.8
LIABILITIES					
Note circulation	17.4	18.4	22.4	31.3	96.5b
Drafts and Bills of exchange issued by the Bank	.7	.9	1.2	3.2	7.0
Deposits at interest	.7	.8	1.3	2.1	5.0
Total sight liabilities	18.9	20.7	26.9	36.5	108.5
Capital	.3	.3	.3	.3	.3
Reserves	.2	.1	.1	.2	.5
Current accounts, secured	.4	.4	.5	.6	1.5
Current account, Treasury	.6	.8	.5	---	1.0
Miscellaneous	1.1	1.3	1.2	1.5	2.0
Total liabilities	21.4	23.5	29.6	39.2	113.8

[a]The known figures are marked [b]; balance of items are estimates based on best available information.

The table below, compiled from various sources -- including the report of the Finance Minister which is attached

Transactions of the Central Bank

Year	Note Circulation Total	Note Circulation Increase	Treasury Anticipation Acc't	Advanced to Consor. Suvv.
1937	17.5	1.2	1.0	
1938	18.9	1.4	3.0	
1939	24.4	5.5	9.0	
1940	31.3	6.9	16.0	

Institute for Industrial Reconstruction; advances to	4.7	4.7	4.7	4.7	4.7
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1939	24.4	5.5	9.0	
1940	31.3	6.9	16.0	
1943(July)	96.5	65.2	58.0	34.0

as Annex I -- shows quite unmistakable that the 65 billion lire increase in the circulation of the Banca d'Italia since the end of 1940 is fully reflected by the 32 billion lire increase in the Treasury's anticipation account and the 34 billion in advances to the Consorzio per sovvenzione su Valori Industriali (practically all of which have occurred since 1940.)

The rediscount rate of the Banca d'Italia has remained unchanged at 4½ percent for 8 or 9 years. During 1933 and 1934, the rate was reduced, under Treasury pressure, for the double purpose of stimulating rediscounts and of easing the money-market for the Treasury. Since 1935, however, the rediscount policy of the central bank has apparently been dictated primarily by the desire to prevent security speculation. The Inspectorate of Savings and Credit (Ispettorato per la Difesa del Risparmio e per l'Esercizio del Credito) has insisted that the commercial banks maintain their discount rates high enough to prevent speculation, and the central bank has supported this policy by holding its official rate firm at 4½ percent, with effective rates frequently much higher.

In general, the big banks do not rediscount commercial paper with the Banca d'Italia -- this has been particularly true since 1936. They prefer to obtain advances from the central bank against the Government securities they hold in their portfolios. In any case, the Banca d'Italia has not attempted to use its rediscount rate as a device for money-market control, other than as explained above.

There is no indication that the Banca d'Italia has ever carried on open-market operations either to support the Government bond makket or for the purpose of controlling the supply of funds available in the market.

4. The Commercial Banking Situation in Italy

There are many small commercial and agrarian banks in Italy, but-- leaving the savings banks aside -- the banking system consists primarily of the following commercial banks, all of which have many branches throughout or in certain sections of Italy;

Credit Institutions of "public right"
- Banco di Napoli
- Banco di Sicilia
- Istituto di S. Paolo di Torino
- Monte dei Paschi di Siena
- Banca Nazionale del Lavoro

Banks of National interest
- Banca Commerciale Italiana
- Banca di Roma
- Credito Italiano

So far as their banking operations are concerned, there is little difference between these two groups of banks. They all accept savings and current account deposits, discount commercial paper, make advances against bonds, etc. The first five probably engage more largely than the second three in credit extension to agriculture, mining, motion pictures, etc., frequently (as in the case of the Banca Nazionale del Lavoro) through the media of subsidiaries.

The "credit institutes of public right" ("diritto publico") are believed to be what are known in Italy as "fondazione" while the "banks of national interest" are limited liability share corporations. The significance of this distinction is not yet fully understood, but one aspect may be reflected by the manner in which the government exercises control over the two groups. In both groups the Government appoints at least the majority of the directors of each institution and exercises very complete control in this way and through the Inspectorate of Savings and Credit. But in the case of the three banks comprising the second group the Government owns the majority of their shares through the medium of the Istituto per la Ricostruzione Industriale (I.R.I.) which is a sort of Italian Reconstruction Finance Corporation.

Systematic statistical series relative to the commercial banks have not yet been obtained -- they will be made the basis of a subsequent report. Bank deposits had increased from 41 billion lire at the end of 1937 to 46 billion two years later. By the end of 1941 the deposits in 5 of the large banks for which figures are available had reached 42 billion -- the total for Italy was probably around 60 billion. In the middle of 1943 bank deposits probably exceeded 100 billion. The principal activity of the commercial banks during in certain sections of Italy;

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2623

So far as the financing of war industry is concerned, the participation of the banks has probably been small - except for some discounting of commercial paper. Various financial agencies of the Government have carried on the bulk of the industrial war financing, chiefly the Istituto Mobilare Italiano (I.M.I.), the Consorzio di Sovvenzioni au Valori Industriali, the Consorzio di Credito per Opere Pubbliche, and the Istituto di Credito per le Imprese di Pubblica Utilita. These organisations obtained their funds primarily from the Banca d'Italia and from the Casa Depositi e Prestiti - the latter's principal resource being the postal savings. Only to a minor degree, so far as can be determined, did the commercial banks refinance any of these organisations.

5. The Commodity Price Situation

The price situation in Sicily and -- so far as is known -- in the mainland of Italy may be summarized as follows:

(a) The maximum price decrees were put into effect piecemeal, which permitted serious maladjustments to develop between controlled and uncontrolled prices.

(b) Price control and wage control were sufficiently ineffective to cause discrepancies between costs of production and official prices, especially in the case of agricultural products. This gave tremendous impetus to black market trading.

(c) Official maximum prices were frequently set without much regard for cost conditions, which made them unenforceable from the time of their first announcement.

(d) In the case of most foodstuffs and many industrial products the black market has become actually more important than the official legal market.

Italian price control is based on decrees of June, 1940 and March, 1941, which state that prices in general (commodities, public utility rates, salaries, wages rents, and professional fees) must remain at the level of July, 1940. The first pressures on these ceiling prices apparently came from the import market, in which price increases from 25 to as much as 300 percent had to be allowed to meet the rising prices of imported goods. This, in turn, of course pushed the cost of living up and made it necessary to increase wages and salaries. The resulting increase in purchasing power, coupled with a relatively light tax burden, put additional pressure on the commodity markets and gave strong support of the black market on the buying side.

Table 10 summarizes in the form of indices and actual prices, the general price situation as exemplified by 12 basic foods, as it exists in Sicily, together with the official prices prevailing in both Sicily and Italy Proper prior to the invasion

It will be noted that there was some effort on the part of the Government to adjust official prices from time to time. Between February, 1940 and February, 1943, an index of 12 foodstuffs shows an increase from 100 to 135 or, on a weighted basis, to 121. In a few cases--notably milk and cheese, and imported salt cod (which is the dried fish item in the index)--the official prices were moved up rather sharply and in proportion to but not as much as black market prices. In contrast, and apparently for political reasons, official prices of bread and pasta (i.e., spaghetti and macaroni) were reduced during 1942-43.

As the same time, black market prices in Palermo, Sicily advanced from 100 to 456 or, on a weighted basis, to 455.8.

Table 11 abstracts from table 10 certain summary data. It will be observed that in August, 1943, the black market in the city of Palermo, Sicily, was doing business at prices which ranged around 1000 percent of the Italian official prices prevailing when the city was occupied, and between 486 and 638 percent of the official maximum prices proclaimed by AMGOT, province of Palermo, August, 1943, depending on whether an unweighted or a weighted index is used. The AMGOT price list closes the gap about half-way between that which existed between Italian official prices and the black market.

It should be kept in mind that the official Italian prices have been generally ineffective. What proportion of trade in each of the 12 commodities in the two tables has been handled in the

Table 11. Italy: Retail Prices and Price Indices, official and Palermo Black Market

Commodity	Prices Indices 1940 = 100			Black Market as% of		Un-it	Prices in Lire		
	Wt	Ital. (Feb)	AMGOT (Aug)	Ital. Offi.	AMGOT		Ital. Off. (Feb)	AMGOT (Aug)	Black Market Palermo
Bread	4	77	184	2660	1110	Kg	1.50	3.60	40.00
Pasta	3	95	158	1480	990	"	2.70	4.50	40.00

rents, and professional fees) must remain at the level of July, 1940. The first pressures on these ceiling prices apparently came from the import market, in which price increases from 25 to as much as 300 percent had to be allowed to meet the rising prices of imported goods. This, in turn, of course pushed the cost of living up and made it necessary to increase wages and salaries. The resulting increase in purchasing power, coupled with a relatively light tax burden, put additional pressure on the commodity markets and gave strong support of the black market on the buying side.

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It will be noted that there was some effort on the part of the Government to adjust official prices from time to time. Between February, 1940 and February, 1943, an index of 12 foodstuffs shows an increase from 100 to 135 or, on a weighted basis, to 121. In a few cases--notably milk and cheese, and imported salt cod (which is the dried fish item in the index)--the official prices were moved up rather sharply and in proportion to but not as much as black market prices. In contrast, and apparently for political reasons, official prices of bread and pasta (i.e., spaghetti and macaroni) were reduced during 1942-43.

As the same time, black market prices in Palermo, Sicily advanced from 100 to 456 or, on a weighted basis, to 455.8.

Table 11 abstracts from table 10 certain summary data. It will be observed that in August, 1943, the black market in the city of Palermo; Sicily, was doing business at prices which ranged around 1000 percent of the Italian official prices prevailing when the city was occupied, and between 486 and 638 percent of the official maximum prices proclaimed by AMGOT, province of Palermo, August, 1943, depending on whether an unweighted or a weighted index is used. The AMGOT price list closes the gap about half-way between that which existed between Italian official prices and the black market.

It should be kept in mind that the official Italian prices have been generally ineffective. What proportion of trade in each of the 12 commodities in the two tables has been handled in the

Table 11. Italy: Retail Prices and Price Indices, official and Palermo Black Market

Commodity	Wt	Prices Indices 1940 = 100: Ital. (Feb)	AMGOT (Aug)	Black Market as% of: Ital. Offi.	AMGOT	Unit	Prices in Lire: Ital. Off. (Feb)	AMGOT (Aug)	Black Market Palermo
Bread	4	77	184	2660	1110	Kg	1.50	3.60	40.00
Pasta	3	95	158	1480	990	"	2.70	4.50	40.00
Dried Veg.	1	99	191	525	242	"	5.70	11.00	30.00
Potatoes	1	110	322	705	240	"	1.70	5.00	12.00
Olive oil	3	136	207	962	628	"	13.50	20.50	130.00
Beef, 2d grd	2	122	366	495	187	"	12.50	37.50	70.00
Cheese, Ragusa	1	215	318	402	285	"	24.80	35.00	100.00
Soap	1	133	410	1540	542	"	5.19	15.00	80.00
Dried Fish	1	196	—	—	—	-	—	—	—
Eggs	1	133	333	375	150	Ea	2.00	5.00	7.50
Milk	1	197	400	290	143	lit	3.45	7.00	10.00
Sugar	1	107	117	900	845	Kg	8.25	9.00	75.00
Total:									
Unweighted		135	273	940	486				
Weighted		121	245	1105	638				

Table 10 Italy: Retail Prices in Official and Black Markets, Palermo 1940-43

Commodity	Index No. Wt.	Index of Official Prices (1940-100)" ITALIAN 1940 (Feb)	1941 (Oct)	1942 (Jun)	1943 (Feb)	AMGOT 1943 (Aug)	Black Market Palermo --- Index 1940-100 1940	1941	1942	1943	Percent o[f] 1940	1941	1[…]
Bread	4	100	100	100	77	184	100	150	200	400	513	769	10
Pasta	3	100	98	95	95	158	100	120	180	400	312	434	6
Dried Veg.	1	100	100	99	99	191	100	125	225	375	140	174	3
Potatoes	1	100	100	145	110	322	100	166	233	400	193	322	3
Olive Oil	3	100	99	136	136	207	100	125	200	650	141	254	2
Beef	2	100	126	122	122	366	100	120	200	280	214	204	3
Cheese	1	100	181	186	215	318	100	133	166	333	274	200	2
Soap	1	100	133	133	133	410	100	125	150	1000	182	153	2
Fish(dried)	1	100	102	196	196	---	100	133	200	266	---	---	-
Eggs	1	100	100	117	133	333	100	200	250	375	133	266	[illegible]
Milk	1	100	128	174	197	400	100	150	200	250	230	266	2
Sugar	1	100	107	107	107	117	100	150	350	750	130	183	4
Total: unweighted		100	114	134	135	273	100	141	215	456	223	292	4
weighted		100	110	125	121	245	100	138	196	455	270	375	4

PRICES -- OFFICIAL and PALERMO BLACK MARKET -- 1943

Commodity	Unit	Italian Official, Feb.	AMGOT Official, Aug.	Black Market, Aug.
Bread	Kg	L. 1.50	L. 3.60	L. 40.00
Pasta	"	2.70	4.50	40.00
Dried Beans	"	5.70	11.00	30.00
Potatoes	"	1.70	5.00	12.00
Olive Oil	"	13.50	20.50	130.00
Beef 2d Grd.	"	12.50	37.50	70.00
Cheese, Ragusa	"	24.80	35.00	100.00
Soap	"	5.19	15.00	80.00
Eggs, local	Ea	2.00	5.00	7.50
Milk at dairy	Liter	3.45	7.00	10.00
Sugar	Kg	8.25	9.00	75.00

Table 10 Italy: Retail Prices in Official and Black Markets, Palermo 1940-43

cial Prices (1940-100)"			Black Market Palermo --- Index								
			1940-100				Percent of Official Prices				
1942 (Jun)	1943 (Feb)	AMGOT 1943 (Aug)	1940	1941	1942	1943	1940	1941	1942	1943 Ital	1943 AMGOT
100	77	184	100	150	200	400	513	769	1025	2660	1110
95	95	158	100	120	180	400	312	434	670	1480	990
99	99	191	100	125	225	375	140	174	313	525	242
145	110	322	100	166	233	400	193	322	311	705	240
136	136	207	100	125	200	650	141	254	296	962	628
122	122	366	100	120	200	280	214	204	354	495	187
186	215	318	100	133	166	333	274	200	244	402	285
133	133	410	100	125	150	1000	182	153	232	1540	542
196	196	---	100	133	200	266	---	---	---	---	---
117	133	333	100	200	250	375	133	266	286	375	150
174	197	400	100	150	200	250	230	266	262	290	143
107	107	117	100	150	350	750	130	183	425	900	845
134	135	273	100	141	215	456	223	292	400	940	486
125	121	245	100	138	196	455	270	375	456	1105	638

PRICES -- OFFICIAL and PALERMO BLACK MARKET -- 1943

	Italian Official, Feb.	AMGOT Official, Aug.	Black Market, Aug.
	L. 1.50	L. 3.60	L. 40.00
	2.70	4.50	40.00
	5.70	11.00	30.00
	1.70	5.00	12.00
	13.50	20.50	130.00
	12.50	37.50	70.00
	24.80	35.00	100.00
	5.19	15.00	80.00
	2.00	5.00	7.50
r	3.45	7.00	10.00
	8.25	9.00	75.00

black market and is today handled in that market cannot be stated with precision. It varies between cities and towns; and between town and country. In general, probably three-fourths of the bread stuffs purchased in Palermo was bought in the black market; in the smaller provincial capitals the percentage may have been one-half. At present - and the situation has probably not worsened since the invasion - in Palermo practically all of the olive-oil, cheese, soap, and sugar is traded in the black market. As a matter of fact, even at the prices listed in the tables olive oil and soap are virtually unobtainable and the sugar supply is not much better.

The chief price and rationing problem concerns breadstuffs, which are the mainstay of the common diet. Under the Fascist regime the official retail price was quite low, but the ration was low as well. In order to bridge the gap between costs and the official prices for grain, and to remove the incentive to black market trading a State subsidy has been paid to make up the difference between the miller's flour price and the farmer's grain price. This system has been continued under AMGOT, but with an increase in both the subsidy and the retail price of bread. Whether the new grain price will; with proper enforcement; suffice to bring in normal grain deliveries it is too early to tell. It is now 500 lire per quintal, compared with the previous 360, but will drop progressively to 400 in the next month.

In general, the food supply in Sicily now on hand or in process of harvest is believed adequate for the Island. What the situation on the mainland of Italy may be cannot be determined on the basis of information now at hand. The task of price control and price and rationing enforcement in Sicily is now progressing along two lines: (a) The determination of maximum prices which can be considered well-adjusted to current cost conditions. (b) The enforcement of these prices, once they are proclaimed, by vigorous attack on large black market operators.

ANNEX I

Text of the Financial Report submitted by the Italian Minister of Finance to the Council of Ministers at the meeting on 5 August 43.

The provisional figures, as ascertained up to 30th June, of the State balance sheet for the financial year 1942-43 are as follows:

Income 48,884 millions; Expenditure 135,158 millions; Deficit 86,274 millions; consisting of: Extraordinary War Expenditure 81,019 millions; Deficit of Normal Expenditure 5,255 millions.

It has to be pointed out that as a rule the figures of the final balance sheet are substantially more favourable. Hence the final deficit under normal headings for the 1942-1943 financial year may be expected not to reach five milliards. Previous financial years yielded the following results:

1940-41	Deficit under normal headings:	6,254 millions;
1941-42	" " " "	6,028 millions;
1940-41	Extraordinary War Expenditure:	57,735 millions;
1941-42	" " "	71,318 millions;
1940-41	Total Deficit	62,989 millions;
1941-42	" "	77,446 millions;

In Italy, as in every other belligerent country, war expenditure has increased year after year. As to normal expenditure, the deficit has gradually decreased, as compared with the 1940-41 deficit; the improvement for 1942-43 may be assessed at roughly 1,500 millions. The very heavy burden of war expenditure, met with special means, is included in the normal items of the balance sheet to the extent of the interests on the corresponding Treasury transactions. On the other hand, the situation of the Treasury has steadily deteriorated. On 31st May 1940, its deficit exceeded 38 milliards and reached the figure of 165,818 millions on 30th June 1940. In view of this position, the Treasury was compelled to fall back on the Bank of Italy note circulation, even if at some dates it was able temporarily to alleviate the position by issuing Loans. From 1st to 31st July 1943, despite the transaction of five per cent Five-year Treasury Bonds, undertaken between 7th and 21st July, and yielding 11,972 millions, the Treasury once again, and to a greater extent, had to have recourse to the note circulation of the Bank of Italy - this, because during that period, in addition to the growing pressure of war requirements, the situation was adversely affected by the decrease in yield, to the extent of 894 million Lire, or from 52 billion to 51 billion of the Ordinary Treasury Bonds. During the same period Current accounts also yielded 2,162 millions less or from 55 billion to 53 billion. During the month of July, the Bank of Italy actually advanced to the Treasury 10,383 millions. Hence the Treasury's debt towards the Bank rose during that month to 57,980 millions. This figure represents solely the advances which the Bank of Italy made to the State for its Treasury services. Taking into account the following additional items: the Bank of Italy's re-discounts to the Institute for Subventions of Industrial Stocks, final deficit under normal headings for the 1942-1943 financial year may be expected not to reach five milliards. Previous financial years yielded the following results:

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1941-42	" " " "	6,028 millions;
1940-41	Extraordinary War Expenditure:	57,735 millions;
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At the beginning of the present in 1940, notes in circulation totalled only 25,344 millions. In 1939 it was less than 20 milliards. The enormous increase in the circulation which has occurred of late, entirely due to war necessities, is such as to give it a most dangerous aspect, since, contrary to what happens to the fiduciary circulation, the circulation on behalf of the State, if not checked, may degenerate into an ever more obnoxious inflation, and also lead to a pulverisation of the Lire, with social consequences that cannot be foreseen.

With a view to easing the Treasury deficit, the expedient of Public Loans was also used; otherwise there would have been an infinitely greater deficit. On 30th June, 1936, the amount was 96,163 millions; on 30th June 1940, it had reached 127,338 millions, represented by Consolidated and Redeemable Bonds, as well as notes of the State Bank. Last June the amount was 256,933 millions. Adding the Floating Debt, internal public debts reached a grand total of 405,823 millions, exclusive, however, of the actual value of annuities for works and supplies, and the contributions - paid of discounted - which on 1st July, 1939, were assessed at 19,886 millions.

Even when taking into consideration the fact that the increase in note circulation has been mitigated by important economies (tesaurizzamenti), this truly serious state of affairs perforce affected the Stock Market, especially State Bonds.

Industrial stocks, after having yielded up to 16th July, are still weak. Yet the section which suffered most in the circumstances was the Public Funds. Prices quoted for State Bonds were most uneven, and not even the official Stock Exchange quotations gave an exact picture of the development of the market as far as State Bonds were concerned, with the consequent detrimental elimination, at least in part, of the favourable reaction of the demands by those who, informed of low quotations, may be prompted by the latter to buy, in view of the high yields which they would receive from such investments.

Hence the obvious necessity of controlling the market of these Bonds. It seems advisable to revert to the healthy principle of having the Bonds negotiated in the Stock Exchanges, through stockbrokers. The possibility of the Banks buying these bonds in their own premises, if they so desire, need not be excluded, provided they buy them only in small numbers. As a rule it would be well for them to act as brokers when a larger amount of bonds is concerned, and the Stock Exchanges, should be left to deal with their negotiation.

Income returns were as follows: 1940-41 34,234,200,000; 1941-42 41,233,800,000; 1942-43 48,884,100,000. The new financial year 1943-44 opened at a moment fraught with dangers for the destiny of the Fatherland. Nevertheless, as a result of recent measures, returns for the main income items for last month, despite the painful loss of territory occupied by enemy forces, reach 3,651,7 millions. This is an increase of 405.5 millions compared with July, 1943, when revenues totalled 3,246.2 millions. The actual revenues for July, 1943, also exceed the budgetary forecast for the same month by 486 millions.

Our financial situation, though serious as far as the Treasury position is concerned, and such as to necessitate at long last a severe revision of all expenditure, has its essential element in the progressive development of the various revenues

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Our financial situation, though serious as far as the Treasury position is concerned, and such as to necessitate at long last a severe revision of all expenditure, has its essential element of resistance in the progressive development of the various revenues from taxation, which have shown the following figures during the past five years:

Incomes: 1938-39 23,111,900,000; 1939-40 26,782,600,000; 1940-41 29,114,900,000; 1941-42 33,412,000,000; 1942-43 37,165,500,000 (provisional); Regarding direct taxation, increases in the yield of landed property tax can hardly be expected, since it is already burdened with an additional tax five times the amount of the basic tax, (imposta erariale), as well as the bulk of the contributions on behalf of syndicates, welfare assistance and insurance which are burdening agriculture to the extent of more than one and half milliard. Tax on buildings is linked to the fixed rents and to the ban on new constructions, and is also affected by the consequences of air raids. Substantial increase may be expected in the yield of income tax, which has always been moving upwards. But nowdays it is affected by evacuations, the calling-up for the armed forces, and by destructions as a result of war operations. The yield of the complementary tax is rising slowly and higher returns may be expected though the bulk of those liable to this tax assessment have only small revenues. At the actual rate, the tax on bachelors will yield not more than 220 millions per year. The yield of the tax on patrimony is expected to increase by 50 per cent, on the basis on the present rate, eventually reaching 1,800,000,000 per year.

To these main taxes, the following have to be added: Tax on landed property; two per cent on salary exempted from income tax; tax on compensations to company directors (Amministratori); and finally the tax on war profits. The last-named, is far the most important, not only for financial reasons, but also because of contributory justice. In this connection, it is my duty to draw the Council's attention to the fact that the Tax Offices are clearly understaffed. This is gravely affecting tax assessments, and hence the yield of the taxes. During the war 1915-1918 these offices were able to carry on their work quite normally, because the staff, especially those with higher qualifications, were liberally exempted from military service. The system of contributions then consisted only of the three main taxes. I hold that the present situation should be reviewed firmly.

As regards taxes on, and indirect contributions from, turn-over (sugli affari), there has been a considerable increase during the five-year period. But no doubt much way can be made up also, in this sector. As far as staff, emphasising above all the necessity for reviewing the problem of exemptions.

The situation of Customs and Excise yields is more difficult as a result of the cessation or reduction in foreign trade exchange which brought about a gradual decrease in receipts. If it has nevertheless been possible to maintain more or less the position in the total yield of this tax group during the five-year period, this has been due to the efforts made to raise the yield in the group of taxes on production (fabbricazione), and I believe this to be the right course for this particular policy of contributions also for the post war period, because there are many sectors which may be called upon for contributions. On the other hand, the whole problem of exemptions and concessions will have to be reviewed; they were granted under the illusion of controlling certain prices, and caused serious damage to the State, without offering any real benefit to the consumer. Certain initiatives within the framework of self-sufficiency would also appear to need review, since they are inconsistent with what would otherwise be a healthy rule of self-sufficiency.

The State Monopolies (Azienda dei Monopoli dello Stato), one of the cornerstones of our tributary system, continue to contribute admirably towards to increase in yields. There is every reason to expect a further considerable rise in this sector during the present financial year.

Therefore, without erring on the side of optimism, a further increase in revenues during the present financial year may be

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Therefore, without erring on the side of optimism, a further increase in revenues during the present financial year may be expected. The best possible attention will be given to this fundamental aspect of public finances, in view both of the necessities of the State, and of the equality of sacrifice through the efforts demanded by the grave struggle in which the nation is engaged. These efforts will also be required for the post-war settlement, which is not likely to be either easy or short.

2624

It is of the greatest importance that a sound equilibrium between normal revenues and expenditure should be re-established at the earliest possible date. And since the burdens of the debts incurred by war expenditure would be included, the balancing of the budget, and hence of the public finances, would be the best proof of the Italian people's capacities. Difficulties have to be squarely met, without trying either to minimise them or ignore them. The normal budget shows a deficit, but it includes all the burdens for interests on Treasury operations which have been, and still are, necessitated by war. Long and patient work is required in order to balance the Budget. The major items of war expenditure, which can only be met by incurring debts and interests thereupon, can be borne by economising under other items of expenditure and by increasing revenues. It must be remembered that war expenditure amounts to eight milliard lire per month.

At the cessation of hostilities, the following will have to be met: Payment for all deferred commitments - war supplies are payable in installments spread over 10 years; daily family allowances to Servicemen, totalling 14 milliards per year, are spread over 30 years; and all further expenditure which will become payable and which will certainly be large; compensation for war damage; rebuilding of towns damaged by enemy action, at a cost already estimated at 20 milliards; expenditure on account of demobilization; construction of new merchant shipping; and general requirements for the renewal of the nation's economic activity. In addition, the normal budget will be burdened with the resumption, even on a modest scale, of Public Works, as well as of those Public Works which have been met by spreading their cost over 30 years; and with war pensions and other committments which cannot yet be foreseen.

Undoubtedly the Italian people will be called upon to make substantial contributions. Therefore it is necessary at once to make stringent economies in all categories of expenditure other than for war purposes. Above all it seems necessary to call a final halt to the policy of intervention and nationalisation (statizzazione), and to prepare for a gradual winding up of a great part of the interest held either directly or indirectly by the State. The number of subsidised enterprises in which the State holds a direct or indirect interest is over 200. The General Direction of the crownlands alone holds shares and other industrial interests to the extent of more than two milliard lire. These figures are enough to indicate the necessity of reviewing the situation. Also to be reviewed, and possibly rejected, are those demands for financial aid which do not fall under war requirements, and which - already amounts to sums which it seems not only advisable, but also necessary, to keep within certain limitations.

The constitutions of Societies will also have to be re-examined from different standpoints, as well as increases in capital and the omission of bonds, and all State administrations must be reminded of the obligation to refer in the first place to the Ministry of Finance concerning the finances of Societies or bodies under their control. The problem of prices, which also entails considerable burdens for the Treasury and numerous relative integral elements, must in the new political atmosphere be prudently considered, with the intention to avoid burdens which do not bring in certain and adequate compensation of economic and social utility for the nation as a whole.

Many rumours have been spread in the country, by the enemy or by traitors or profiteers, in an attemp to weaken our resistance. Advantage is taken of everything, even of the abolition of the Fasces of new merchant shipping, and general ... of the nation's economic activity. In addition, the normal budget will be burdened with the resumption, even on a modest scale, of Public Works, as well as of those Public Works which have been met by spreading their cost over 30 years; and with war pensions and other committments which cannot yet be foreseen.

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Many rumours have been spread in the country, by the enemy or by traitors or profiteers, in an attemp to weaken our resistance. Advantage is taken of everything, even of the abolition of the Fasces as the State emblem. It is well for the nation to know that the public debts of the State are sacred and will be respected whatever mark they bear, and that those who had confidence in the State and lent it money, the fruit of hard-earned savings, or made more considerable investments, will be paid in full; and that all eventual burdens which may fall on the nation will fall fairly on the general population. Interests on loans, however contracted, will be paid regularly. Capital will be reimbursed when due. All prizes will be paid, and all conditions under which the loans themselves were launched will be rigorously observed.

For a long time the publication of the figures of State expenditure has been forbidden. From many quarters it has been urged that this veto should be removed, to bring the country into line with almost all the belligerent countries.

The concealment of the figures merely serves to provoke speculations about our financial position, which even in competent, but non-informed, circles lead to conclusions which are far from the truth and to the bewilderment of technical people and the masses, and to serve the purpose of adversaries or speculators. For this reason I think that in this sphere also, in accordance with that policy of sincerity and rectitude which alone can serve the nation's essential objectives and constitute a sound and effective defence of our currency, it is necessary to resume regular publication of the essential figures relative to the State's financial situation, the public debt, savings and the State Bank (istituto di emissione).

I have informed the Council (the Minister for Finance concluded) with absolute frankness about the main facts of the financial situation in which our Government has found the country. I have outlined the path to follow. The situation is serious, but with firmness, fairly distributed sacrifices and general goodwill, it may be overcome. I hope the Council will support me in the difficult task entrusted to me by the confidence of the Head of the Government and by the will of the King, happy that my modest efforts may in some way serve the country.

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