Declassified E.O. 12356 Section 3.3/NND No. 785021

ACC A2210/TN4 10000/148/2286 PRICE FIX
MAR.-MAY 1944

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10000/148/2286 PRICE FIXING COMMITTEE
MAR.-MAY 1944

1232

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140/6

HEADQUARTERS
ALLIED CONTROL COMMISSION
ECONOMIC SECTION
APO 394

JBT/ml

76/41

29 May 1944.

SUBJECT : Schedules of Rates for Services and Prices of Commodities.

TO : Agriculture Sub-Commission
Finance Sub-Commission
Food Sub-Commission
Industry & Commerce Sub-Commission
Labour Sub-Commission
Public Works & Utilities Sub-Commission
Transportation Sub-Commission —

1. Peninsular Base Section will be placed on the distribution of all orders or schedules that establish rates for services, prices for commodities and civilian labour regulationsthat may be issued by you and which are applicable to Region III.

2. Orders or schedules will be marked for the attention of the Base Purchasing Agent.

J. Bruce Thompson Major RA

J. B. THOMSON, Major R.A.
G.S.O. 2, Economic Section

Copy to: HQ MBS
ref. AG 961 BPDPA dated 26 May.

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IAJ/mc

HEADQUARTERS
ALLIED CONTROL COMMISSION
Public Works and Utilities Sub-Commission
APO 394

28 March 1944

APC/064/PWU

Subject: Utility Rates.

To : V.P. Keen. Sec.

After prolonged study of all phases entering into or affecting utility rates this Sub-Commission has reached certain conclusions which are submitted herewith for consideration and approval so that we may now proceed along approved lines.

1. a. If rate increases are allowed today they are bound to be based upon estimated expenses and income, both of which are very apt to be quite different already in a few months, necessitating frequent revisions of rates so as not to have deficits or unduly high revenues.

b. Such a procedure would require a considerable staff, both at this headquarters and by the Ministry of Public Works, whose officials would be called upon to do much of the work in the Italian zone. Neither we, nor the Italians, have a sufficient staff for such purposes, nor are we likely to obtain it in the future.

c. As utility rates should only be changed after serious study, any rate changes established now could only be considered as a temporary expediency subject to change, and, therefore, would add to confusion rather than avoid it.

d. Inequalities are bound to be introduced in trying to solve the problem of basic rates in Italy which never were reviewed here with the same scientificcare as is done in the U.S. and U.K. 6509

e. One of our most important worries on this subject at the moment is in connection with electricity rates in Italian territory in view of the forthcoming plan for rationing electricity. If electricity is rationed small companies in the South, who purchase their current, will have their revenues cut to a fraction of what they were and are bound to show high deficits.

f. Basic utility rates should be changed only upon extended and careful analysis, based upon some degree of economic stability.

2. In view of the present unstable condition, and in view of the above facts, we recommend that no change be made at this time in the existing utility rate structure. However, in view of the need of giving some assistance to these companies to meet monthly deficits, we ask approval on the following simple procedure:

a. Bills for utility services are rendered either every month, or

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every 2, or 3 months, therefore a simple analysis, requiring a very limited personnel, is possible every 2 months for certain groups, and every 3 months for those who bill quarterly.

b. These companies should render to us a sworn statement, or one certified by a public accountant, giving all revenues and all expenses, including overhead, pro rata share of taxes and interest on operational bank loans for the 2 or 3 months period, as the case may be.

c. We to analyse these and then authorize the company to send out with the next bill to all users of services a surcharge statement, covering the deficit of the previous period, based upon a flat percentage of surcharge authorized by us on all classes of services, to be adjusted as required every 2 or 3 months, and added as a surcharge to the total charge for the period in question.

d. No allowance will be made for depreciation, interest or bonds or dividends. As to depreciation, since such plant has been destroyed any allowance would be based upon guesswork and in our opinion all depreciation and amortization and even interest on the bonds can wait until after the war when an overall settlement will have to be made.

e. The company would continue to render this essential service as it would be assured that all fair operating charges will be met.

f. No change would be made in the existing rate structure, unless, after say 6 months or more of adjustment, it is found that some reasonable economic equilibrium does exist and that a change in basic rates is then desirable and is apt to last for some time.

g. In this manner a complete periodic picture will be obtained including parent company and subsidiary relations, or the relations of distributors, who purchase wholesale, with the seller, and will permit of an adjustment of any unfair practices in this field.

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h. Should any company show a drastic cut in revenues due to rationing or other war causes, then, a report can be made recommending a fair surcharge to be made against the consumer, and the balance to be covered by a Government subsidy.

i. Should any property appear out of balance with others of the same category a field survey of the property can then be made to determine the reason and corrective measures taken.

3. In order to show by some typical examples of how this may be effectuated we present the following cases, using factual data where obtainable and estimates where indicated:

a. Electric Properties:
   1. Societa Generale Pugliese de Elettrica
   2. Societa delle Calabrie
   3. Societa Lucana per Imprese Idroeletriche

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(Subsidiaries of the Societa Meridionale di Elettricita, the large company serving most of southern Italy)

b. Gas Properties:

1. Compagnia Napoletana d'Illuminazione e Scaldamento col Gas.

c. Water Properties:

1. Societa Acquedotto di Napoli

4. The day before Mr. Grady left he discussed this matter with me and expressed general approval of the method of procedure proposed herein, but he suggested that it be brought to the attention of the "Economic Committee".

5. Will you, therefore, please arrange for a conference with this Committee so that this matter may now be settled at an early date.

L. A. JENNY,
Lt. Col., C.E.,
Director.

Re para 2(d) - the following point was made by me: 6507
Elimination of interest will precipitate a default in payment of all interest. I do not subscribe (1) because it is not morally or economically right (2) because this question of higher policy than the Price Comm. should decide.

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ALLIED MILITARY GOVERNMENT

INTER OFFICE MEMO

1404

From: ECONOMIC SECTION MH/sen

FILE No. ES/44

SUBJECT: Price Fixing

30 March 1944

TO: Transportation Sub-commission

Reference your letters ACC Tn/35/56 of 25 Mar and Tn/11/20 of 26 Mar 44, these are being dealt with by Mr. WADLEIGH, of Economic Section as Gen. di Raimondo's letter 1335/0.1/3.1 Segr of 21 Mar. (para 4.) raises the whole question of whether the Italian Government have power to fix prices and tariffs in the area of Italy now under the Badoglio Government which is a much larger question than a mere increase in rates at the present time.

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M. MAY
Capt. I.A.
Staff Officer Economic Sect

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Rec'd handed to Mr Goodwin
30 MAR 1944 hmj

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HEADQUARTERS
ALLIED CONTROL COMMISSION
ECONOMIC SECTION
APO 534

EC/GEN/ser

EC/41

5 March 1944

SUBJECT: PRICE-FIXING

1. The Economic Section is now responsible for fixing the price of imports and Italian produced commodities that are essential civilian supplies. It will advise the Allied Force Local Resources Board of prices to be paid by the Allied Force for locally produced supplies so as to prevent competitive buying. Consideration will also be given to public utility and transportation rates, rents and wages.

2. Price decisions are issued direct to Regions under ACC control whilst the Italian Gov't is asked to publish appropriate legislation giving effect to price decisions in those areas (at present Regions I, II, & VI and Salerno Province in Region III) where ACC now acts as adviser to the Italian Gov't. There will be prior consultation and joint agreement with the Italian Gov't before such requests are made.

3. Such price decisions will be made not merely with reference to actual cost. Their effect on the prices of other commodities and services and on the general cost of living will also be considered bearing in mind the ACC policy to resist inflationary tendencies.

4. If, in order to avoid inflation, the prices fixed do not cover costs of production, it follows that domestic production will tend to cease unless the producer receives a subsidy which makes production worth while or else is able to obtain black market prices for his products. Though subsidies may be debited against the Italian Gov't it is unreasonable to reject unilaterally all proposed price increases and expect the subsidies to be met by a Gov't which, at the present time, has a considerable budget deficit which shows no signs of being reduced.

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5. Though it is necessary to consider applications for price and rate increases, and answer enquiries as to prices to be charged to producers, wholesalers, retailers and consumers, Allied Control Commission must not permit all initiative to come from outside. There will be a continual price review so that A.C.C. may decide in advance of enquiries the rates and prices that shall operate.

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6. All Sub-commissions of the Economic Section are concerned to a greater or less degree with price decisions. The knowledge of their specialist officers is required to investigate the justification of proposed increases or reductions in the prices of agricultural products, food, imported commodities, transportation and public utility rates, and labour, and to consider the effect of the decisions taken on the cost of living and the finances of the Italian Gov't. Each Sub-commission will nominate a member of a Price Group charged with the responsibility of contacting other members as and when required so that price decisions may be made quickly. Actual [illegible] will be called by the Vice President or Executive Officer

paid by the Allied Forces for locally produced supplies so as to prevent competitive buying. Consideration will also be given to public utilit and transportation rates, rents and wages.

2. Price decisions are issued direct to Regions under ACC control whilst the Italian Gov't is asked to publish appropriate legislation giving effect to price decisions in those areas (at present Regions I, II, V VI and Palermo Province in Region III) where ACC now acts as adviser to the Italian Gov't. There will be prior consultation and joint agreement with the Italian Gov't before such requests are made.

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7. Price decisions fall into different categories. The Algiers Price Conference held in Jan 1944 decided that landed cost will be the basis for the price of imported commodities. By the addition of appropriate charges for handling and distribution, prices charged to wholesaler, retailer, and consumer may thus be determined. The determination of these prices will be made by the Price Section of the Industry & Commerce Sub-commission. For economic reasons, such as the poverty of consumers, it may be necessary to fix a price that does not cover costs. Such cases will be referred to Mr. Wadleigh, Secretary of the Price Group. He will consult appropriate members of the Group and will then make a price recommendation to the Vice President or Executive Officer of the Economic Section who will decide the price to be charged. The decision will be communicated

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ITEM-FIXING (cont'd)

to those concerned by the Price Section, Industry & Commerce Sub-commission. Both Mr. Eadleigh and the Price Section will maintain records giving justification for the price determined. Such records are necessary not only to ensure a consistent and uniform policy and to give a guide to future action, but so that a full justification for ECO policy and practice may be available when required.

8. Decisions on the prices of agricultural products are most important and complicated. On the one hand it is necessary to ensure that the prices paid are not too high to make a large increase in the cost of living. On the other hand, in order to maximise Italian agricultural production and reduce shipping space required for food imports, it is necessary to offer the producers a price that will encourage them to produce. The time lag of production in agriculture is greater than in most other industries and it is essential, therefore, that a satisfactory firm producers' price for agricultural products be fixed many months ahead. It is, therefore, the duty of the Agriculture Sub-commission to examine costs of production now, in collaboration with the Italian Gov't, recommend prices well in advance of the time when the actual decision must be taken. The probable effect on the cost of living and real wages, or the cost to the Italian Gov't of any necessary food subsidy may then be ascertained and an agreed price recommendation made by the appropriate members of the Price Group. A full justification record of the decision made by the Economic Section will be maintained by Mr. Eadleigh. The decision will be communicated to the Italian Gov't by the Economic Section and to others concerned by the Price Section of Industry & Commerce Sub-commission. Once the decision is taken all enquiries on such prices will be answered by the Price Section. Industry & Commerce Sub-commission will act in a similar advisory capacity when the price determination of other industrial products is being considered. Otherwise the procedure and responsibilities will be the same as in the case of agricultural products.

9. Decisions on Transportation and Public Utility rates, Rents, and Wages, will be handled by the Economic Section in consultation with the Price Group members of the Sub-commissions concerned. These Sub-commissions will investigate existing rates and proposals in among them. They will contact the corresponding Ministry of the Italian Gov't and will make recommendations to the Economic Section which will communicate decisions to the Italian Gov't and others concerned. Mr. Eadleigh will again maintain a full justification record of the decisions made.

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10. Full and accurate records of current statutory and black-market prices of essential commodities and produce must be available in the Economic Section. These records will be maintained by the Price Section of Industry & Commerce Sub-commission. All other Sub-commissions who obtain such information for their own purposes will ensure that it is made available to the Price Section. Price Section records will be made available to Mr. Eadleigh so that he may observe the general trend of prices, investigate anomalies, and recommend action required to ensure that ECO price determination and policy may be upheld at all times.

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9. Decisions on Transportation and Public Utility rates, Rents, and Wages, will be handled by the Economic Section in consultation with the Price Group members of the Sub-commissions concerned. These Sub-commissions will investigate existing rates and proposals to amend them. They will contact the corresponding Ministry of the Italian Gov't and will make recommendations to the Economic Section which will communicate decisions to the Italian Gov't and others concerned. Mr. Radleigh will again maintain a full justification record of the decisions made.

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10. Full and accurate records of current statutory and black-market prices of essential commodities and produce must be available in the Economic Section. These records will be maintained by the Price Section of Industry & Commerce Sub-commission. All other Sub-commissions who obtain such information for their own purposes will ensure that it is made available to the Price Section. Price Section records will be made available to Mr. Radleigh so that he may observe the general trend of prices, investigate anomalies, and recommend action required to ensure that AMG price determination and policy may be upheld at all times.

D. S. ARMS
Colonel, C. E.
Executive Officer
Economic Section

Distribution:-
Agriculture
Finance (2)
Food
Internal Transportation
Industry and Commerce (2)
Labor
Public Works and Utilities
Mr. Radleigh
File

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