

International Influences on Italian Economic Development

1. Broadening GATT

While the Marshall Plan, whose programme and impact were examined on various occasions in the *Review*,¹ was the most comprehensive and coordinated force in the reconstruction of the Italian economy, in much the same period the various forms of aid provided primarily by the United States to support reconstruction in Europe were accompanied by a flourishing of debate at the international level, aimed at identifying and removing the key factors in the economic troubles at the root of the two world wars. Here, too, the *Review* provided broad coverage and analysis. One of the principal objectives of the effort was to lower the tariff barriers that divided one country from another.

Discussion began in Geneva in 1947 and continued at successive rounds at Annecy in 1949 and Torquay between September 1950 and April 1951. The starting point was the proposal put forward at the conference held in Havana to discuss the establishment of an International Trade Organization (the Havana Charter) to implement the principles of a General Agreement on Tariffs and Trade (GATT), which would reduce customs tariffs in order to promote international trade.

The number of signatory countries to the agreement was initially small, but it gradually increased from conference to conference, although the communist countries never did join. Given the complexity of the problem, immediate success could not be hoped for, as it was necessary to break free of vested interests and open economic sectors that had grown up behind the barrier of protective tariffs to international competition. In the meantime, customs unions began to be formed, a clear signal that some countries felt the need to supercede the economic nationalism that had exploded between the two wars. These included unions between the Benelux countries (Belgium, the Netherlands and Luxembourg), the Scandinavian countries, and Syria and Lebanon. Independently of the GATT framework, Italy signed tariff agreements with France and Switzerland, and at the Torquay conference had signed others with no less than 17 countries.² The agreements covered 1,150 products, more than half of Italian imports.³ However, although many agreements were signed (with the number

¹ See Chapter 1, Section 8.

² Austria, Benelux, Canada, Denmark, the Philippines, Germany, Norway, Pakistan, Peru, Southern Rhodesia, Sweden, Turkey, Uruguay and the United States.

³ Francesco Coppola D'Anna, "Lights and shadows of the Torquay conference", *Review*, V, 3 (May 1951), pp. 183-190.

rising from 123 in 1947 to 147 in 1950), the goals set out in the Havana Charter did not seem likely to be achieved. At the GATT conference of September 1953, the complaints and disagreements among both the industrialized and less developed countries were as vigorous and widespread as ever. The British and the Americans argued that GATT's scope should not be limited to agreements to abolish quantitative restrictions on imports only, but should regard eliminating other barriers to international trade as well, with a more general reform of financial and monetary policies. The less developed countries were concerned about the adverse impact of tariff reductions on their policies for economic development and industrialization, arguing that they had nothing to gain from lowering tariffs with the industrialized world.⁴

2. The OEEC

Another organization that sought to reduce tariff barriers among European countries was the Organization for European Economic Cooperation (OEEC),⁵ set up in April 1948. On 2 November 1949 the organization set itself the task of promoting European economic integration through the study of individual country economies and the liberalization of trade.

Both areas of endeavour soon produced significant results, but the greatest success was achieved in trade liberalization. Thanks to the OEEC's efforts, within two years intra-European trade increased considerably: in 1950 imports were 47 per cent higher than in 1938, while exports were 43 per cent higher. The OEEC successfully sought to coordinate activity in special sectors, such as oil, iron and steel, nitrates and electricity, and worked to reduce tariffs. On 1 July 1950 the European Payments Union (EPU)⁶ was established to facilitate multilateral payments. The EPU also contained a mechanism for providing OEEC members with credits of up to 15 per cent of total imports and exports in 1949, a benefit, as noted by Giuseppe Pella, of no little importance to Italy.⁷

Thanks to the OEEC, in 1951 Europe had already set out along the road to a common market, with France, the Netherlands and Italy drafting plans for its creation. Although there was debate over whether to implement the common market from the top with comprehensive planning or to proceed from the bottom through the action of market forces, the determination to continue towards the economic integration of Europe was by now firmly established.⁸ Meanwhile,

⁴ Francesco Coppola D'Anna, "Revisionary trends and apprehensions regarding GATT's future", *Review*, VII, 6 (November 1953), pp. 491-501.

⁵ The OEEC later became the Organization for Economic Cooperation and Development (OECD).

⁶ B. Eichengreen has recently questioned the need for the EPU (*Reconstructing Europe's Trade and Payments. The European Payments Union*, (Manchester University Press, Manchester, 1993), pp. 39-63).

⁷ Giuseppe Pella, "European economic integration", *Review*, V, 5 (September 1951), p. 367

⁸ Pella, *ibid.*, pp. 363-376.

trade liberalization continued in a series of stages. The percentage of liberalized imports was gradually raised until the adoption in 1950 of the "liberalization code based on the principle of the progressive removal of restrictions and on nondiscrimination and the adoption of a common list".⁹ The results far exceeded expectations. The objective for the percentage of goods to be traded freely was set at 75 per cent and, except for Turkey, Austria, France and Ireland, this had already been exceeded in 1952. Only the outbreak of the Korean war slowed the process. Liberalization resumed after the war ended and in some countries the percentage of freely-traded goods reached very high levels.¹⁰

The removal of quantitative restrictions on imports provided an additional boost to intra-European trade. Taking 1950 as our base year, the volume of trade was equal to 80 in 1938 and 59 in 1948, before rising to 106 in 1952 and 135 in 1954. Nevertheless, the road to liberalization was still long. Although the OEEC was able to eliminate the clearing system for Marshall Plan funds, establishing that part of the funds received were to be used in the payment circuits among three or more countries rather than in bilateral arrangements only,¹¹ trade was still impeded by customs barriers, differential pricing, dumping (by means of tax rebates) and other methods.

3. The European Coal and Steel Community

Although it did not achieve the full convertibility of currencies, the OEEC made a vital contribution in creating an atmosphere of international cooperation, forcing its 16 members to recognize the advantages of participation in a larger community and abandon customs unions, since these made it impossible to unify multiple and diverse markets.¹² The customs union between France and Italy failed, leaving that of the Benelux countries. The latter, however, had allowed each of its members to decide the economic policy they wished to adopt with non-members, which meant that broader-based integration projects were not ruled out. There was much debate in Europe on the most appropriate way to implement a more ambitious scheme for economic integration.¹³ In the end, it was decided to proceed by sector, beginning with coal and steel. The European Coal and Steel Community, involving Belgium, France, Germany, Italy,

⁹ Giuseppe Pella, "Itineraries of European economic integration", *Review*, IX, 5 (September 1955), p. 417.

¹⁰ For example, Italy liberalized 99.7 per cent of imports, the Netherlands 92.5 per cent, Switzerland about 83 per cent, Germany 90.1 per cent, Belgium, 87.7 per cent, the United Kingdom, 82.9 per cent, Austria 75.6 per cent and France, 75 per cent. *Ibid.*, p. 418.

¹¹ *Ibid.*, pp. 420 *et seq.*

¹² *Ibid.*, pp. 424.

¹³ *Ibid.*, pp. 424-426. On the proposals and debate over the creation of the European Community, see D.M. Harrison, *The Organization of Europe. Developing a Continental Market Order*, (Routledge, London-New York, 1995), pp. 1 *et seq.*

Luxembourg and the Netherlands, began operating on 10 February 1953.¹⁴ For the first time in European economic history imports and exports of coal and steel in the area were no longer subject to quotas, tariffs, differential pricing policies or restrictions on movements of capital and persons.

In joining the Coal and Steel Community, Italy, which in addition to having almost no coal deposits¹⁵ produced less than a tenth of Community iron output (3.5 million tons out of a total of about 40 million), showed that it was aware of the reasons for the backwardness of its steel industry in relation to the rest of the Community: in addition to widespread structural unemployment, which led to higher taxation, higher social security contributions and restrictions on redundancies, the country also had a low saving rate, which constrained both consumption and investment. It was clear that the Italian steel industry required far-reaching rationalization and greater specialization.

The Coal and Steel Community was not intended to be an instrument of industrial protection but rather a way to modernize and regulate the market for the sole benefit of consumers. Reducing steel prices would help create a level playing field for Italian industry, facilitating access to raw materials and energy and, at the same time, encourage other countries to absorb some of Italy's unemployed labour.¹⁶ The Community's first steps seemed positive. In 1955, despite the fact that 1953 and 1954 were difficult years for steel and other industrial sectors, the coal and steel industries seemed to be gaining ground, with total steel output exceeding forecasts to reach 50 million tons.¹⁷

4. The origins of the economic miracle: the Marshall Plan

As early as 1950, with the terrible destruction of the war still visible, Italy had already returned to its pre-war level of output and was on its way towards what was later baptized the "economic miracle". Nevertheless, even the most careful observers did not seem to be aware of this incipient miracle.

In early 1951, rather than seeing the opportunity for further economic growth, it was widely felt that industrial production had saturated the market. By contrast, the head of the special ERP mission in Italy, M. Leon Dayton, argued for a

¹⁴ The European Coal and Steel Community was established with the Treaty of Paris in April 1951 with a duration of 50 years. However, the governing High Authority began its work only in July 1952. In December 1954 the United Kingdom signed an association agreement with the Community. See R.A. Jones, *The Politics and Economics of the European Union. An Introductory Text*, (Edward Elgar, Cheltenham, 1996), pp. 10-14.

¹⁵ The price of coal from the Sulcis deposit, which supplied the Italian steel industry, was more than twice that of German and Dutch coal. Italian coal also cost more than Belgian coal, even excluding the cost of transport from Sardinia to the mainland. M. Vaglio, "The European coal and steel pool and Italian economy", *Review*, VIII, 2 (March 1954), p. 165.

¹⁶ *Ibid.*, pp. 172 *et seq.*

¹⁷ Pella, "Itineraries", pp. 430-431.

different view of the situation. In a speech given at Banco di Roma, later published in the *Review*, Dayton said that he was personally convinced that there were major possibilities for growth in Italy. The progress made by Italy towards complete reconstruction in the 33 months of the Marshall Plan underscored the fact that economic opportunities had been increasing since Western Europe had begun to liberalize trade, and that Italy was one of two countries in the entire western world with available skilled and unskilled labour, unused capacity and skills in engineering, architecture and art which were second to none. Moreover, in his view there was enormous scope for growth in the South, where the Southern Italy Development Fund was preparing to launch the first of its investment projects, which would create a considerable number of jobs and give a significant boost to the market. At the same time, plans were being prepared for the development of Sardinia¹⁸ and Sicily, which were expected to make a further contribution to economic growth in Italy. Fresh prospects for growth were offered by the legislation then being drafted on the use of mineral resources and by programmes for the development of Italy's depressed areas. In Dayton's view, 1950 had been a particularly good year for the development of backward areas not only because of the creation of the Southern Italy Development Fund but also because of the agrarian reforms, especially in the Sila area.¹⁹

To sum up, Dayton argued that the future economic progress of Italy depended on three key factors: 1) the economic integration of Europe; 2) the development of the country's depressed areas; 3) the exploitation of available resources.

5. The European Community and Italian economic development

Without doubt, Italy's participation first in the Coal and Steel Community and then, in 1957, in the European Economic Community, was one of the major factors in the growth of Italy's foreign trade. In two articles by Guglielmo Tagliacarne,²⁰ the first focusing on imports, the second on exports, an analysis of the figures for imports by ship and rail reveals that the volume of imported goods increased nearly twelve fold between 1911 and 1974, rising from an average of about 20 million metric tons in 1911-12 to 250 million tons in 1973-74. Growth was not continuous, having contracted during the First World War (reaching a low point in 1917 and 1918), again in 1936 following the imposition

¹⁸ For more on the development plan for Sardinia, see G. Della Porta, "Sardinia and its prospects", *Review*, XI, 5 (September 1957), pp. 420 *et seq.*

¹⁹ M. Leon Dayton, "1951: Year of economic opportunity for Italy", *Review*, V, 2 (March 1951), pp. 99-106.

²⁰ Guglielmo Tagliacarne, "Italy's supply routes", *Review*, XXIX, 5 (September 1975), pp. 388-404, and "The evolution of Italian exports during 115 years of national unity", *Review*, XXX, 3 (May 1976), pp. 171-192.

of economic sanctions against Italy and yet again during the Second World War. The greatest growth came between 1952 and 1974 (especially between 1965 and 1974), when imports increased by 623.5 per cent, compared with 73.5 per cent between 1911 and 1952.⁴¹ Imports by rail accounted for less than 4 per cent of the total, and until 1974 most imports came by sea, while transport by road, air or pipeline continued to represent a virtually negligible share in relative terms, albeit an increasing one.⁴²

Italian exports behaved similarly. Expressed in terms of wholesale prices in 1974 lire, they increased from 284 billion lire in 1861 to 683 billion in 1871, about 800 billion at the turn of the century and just over 3 trillion in 1956. In short, between 1861 and 1954 exports increased nearly ten times. However, in the 18 years between 1956 and 1974 "exports increased nearly seven times to almost 20 billion lire".⁴³ An increasingly large part of Italian exports was absorbed by the countries of the European Community, which from 1973 onwards also included the United Kingdom, Ireland and Denmark. In 1973 nearly 50 per cent of exports went to Community countries, with the largest importers of Italian products being Germany, France, Belgium and the Netherlands.⁴⁴

Another scholar to examine the impact of the European Community on Italian foreign trade was Francesco Masera. He pointed out that Italian exports increased not only because of their price competitiveness but also because of the warm reception that traditional Italian products received in foreign markets. Moreover, the entry of Italy into the Community allowed Italian industry both to specialize and to reap considerable scale economies.

Masera also compared the figures for foreign trade before and after the Community began to operate. Between 1950 and 1958, when the Community was still not operational, Italy's imports from its future members grew by an annual average of 14.4 per cent, while exports increased by 11.6 per cent. Between 1958 and 1966, with the Community fully operational, imports rose by an annual average of 18.7 per cent and exports by 22.9 per cent.

In the service sector, between 1950 and 1958 exports of services increased by an annual average of 19.9 per cent, while imports increased by 13.8 per cent; between 1958 and 1966, exports and imports services increased by an annual average of 16 per cent. In addition, while exports to the Community increased by a total of 438 per cent between 1958 and 1966, those to non-EEC countries rose by only 147 per cent. At the same time, imports of services from EEC countries increased by 307 per cent, compared with 134 per cent for those from

⁴¹ Tagliacarne, "Italy's supply routes", p. 389.

⁴² *Ibid.*, pp. 403-404.

⁴³ Tagliacarne, "The evolution of Italian exports", pp. 172-173.

⁴⁴ *Ibid.*, pp. 181-184.

non-EEC countries. Italy's trade deficit of \$378 million in 1958 gave way to a surplus of \$347 million in 1966.²⁵

Like Tagliacarne, Masera also argued that the creation of the European Economic Community had not only accelerated the industrialization of Italy but also increased productivity in agriculture, making it possible to use more labour in industry, where productivity was even higher. In other words, participation in the economic life of the Community had produced an acceleration in the growth of industrial output and a broadly stable food output, accompanied by a shift in the distribution of income as a result of mass immigration into the cities. In addition, the transformation of a predominantly agricultural economy into an industrial country not only increased Italian GDP but also improved its trade balance through the extraordinary increase in exports, which increased in value from \$710 billion in 1958 to \$2,869 billion in 1966, offsetting the decline in food exports.²⁶ And thanks to the elasticity of prices imposed by competition within the Community,²⁷ Italy was able to get through the recession of 1964-65.

6. The crisis of the international monetary system and the end of Bretton Woods

It is not possible to understand fully economic development in Italy without taking into account the evolution of the international monetary system over the same period. The suspension of the convertibility of the dollar in mid-August 1971 was the conclusion of a long and difficult process involving both the United States and the European Community, one that had originated in the balance of payment imbalances of most industrial countries. Early on, the persistence of these imbalances had stimulated a raft of proposals and debates within and around the International Monetary Fund and the European Community, all fuelled by the growing conviction that the imbalances were feeding inflation in both surplus and deficit countries in addition to transferring significant real resources from one country to another.²⁸

Within the IMF, the Group of Ten²⁹ – established at the beginning of the 1960s³⁰ to study possible lines of monetary reform – emphasized the importance of eliminating payments imbalances, agreeing on two points: a) the need to

²⁵ Francesco Masera, "Italy in ten years of the Common Market", *Review*, XXI, 5 (September 1967), pp. 368-369.

²⁶ *Ibid.*, p. 377.

²⁷ *Ibid.*, p. 387.

²⁸ Rinaldo Ossola, "Progress of discussions on monetary reform", *Review*, XXII, 1 (January 1968), pp. 7 *et seq.*

²⁹ The original Group of Ten was composed of the United States, Canada, Japan, Germany, France, Italy, the United Kingdom, Sweden, the Netherlands and Belgium. Switzerland later joined the group but the name remained the same. See H. Helleiner, *States and the Re-emergence of Global Finance from Bretton Woods to the 1990s*, (Cornell University Press, Ithaca, 1994), p. 11.

³⁰ *Ibid.*, p. 98. Italy was represented by Rota and Ossola.

create a reserve fund that would not be used to finance the balance of payments deficits of individual countries, as had been done in the past; b) that all countries had a legitimate interest in maintaining a satisfactory level of global reserves, but the countries with a key role in the system had a special responsibility to provide financing. France took a slightly different stance, reconfirming the fundamental role of gold in international payments and arguing against any increase in its price, which was still set at \$35 an ounce while the market price was showing signs of rising; the French also supported the preparation of a long-term reserve plan.

While the Italians agreed on the advisability of establishing a reserve fund, they did not consider it to be a priority of monetary reform. Beginning in 1953, the proportion of fiduciary money, i.e., dollars, in the reserves of the G10 countries increased steadily. Excluding the United States, at the end of 1966 20 per cent of reserves were denominated in dollars. In Japan, 16 per cent of reserves were in dollars; in Italy, 45 per cent; in Germany, 51 per cent; in the United Kingdom, 61 per cent; and in France, 76 per cent.³¹

It proved impossible to bridge the gap between the different positions and reach an agreement, so discussions were postponed until the G10 meeting of 1967³² in the hope that monetary reform could take shape on that occasion. In the event, a proposal advanced by the G10 in London in August 1967 led to the approval of a separately managed reserve of "special drawing rights" at the IMF meeting in Rio de Janeiro at the end of September.

Although the reserve was to be separate from the General Fund, the two funds still shared decision-making and executive bodies, i.e., the governing bodies of the IMF. The special drawing rights (SDRs) were to be granted for five-year periods to member countries in proportion to their respective quotas in the IMF. The value of the SDRs would be decided on an annual basis. All major decisions required a qualified majority of 85 per cent, but in an important move the European Economic Community was granted the same number of votes as the United States. The SDRs were valued in terms of gold and paid a low rate of interest.³³

The Rio agreement had the merit of at least temporarily putting an end to a lengthy series of proposals, discussions and disagreements. It did not represent, as some have argued, a new Bretton Woods (even if it vaguely recalled the spirit of Keynes that had inspired the proponents of the original agreements of 1944). It was instead a provisional agreement, perhaps preparing the way for a new and more comprehensive plan to increase the supply of international liquidity.

³¹ Ossola, "Progress of discussions", p. 12.

³² *Ibid.*, p. 13.

³³ Gaetano Stamatì, "After Rio", *Review*, XXII, 1 (January 1968), pp. 5-6.

Nevertheless, only two months after the approval of the SDR system new turbulence swept through the international monetary system:³⁵ on 18 November sterling was devalued; on 27 November De Gaulle, taking his cue from the sterling crisis, reiterated his unshakeable faith in the gold standard, the "immobility, impartiality and universality ... of gold".³⁶ Just over a month later, on 1 January 1968, US President Lyndon Johnson, under pressure from both the large balance of payments deficit recorded in 1967³⁶ and the continued demands for the United States to restore equilibrium to the international financial system, took a number of measures to balance the country's external accounts.

Some of the measures were short-term and temporary, while others were aimed at the medium term. The temporary actions restricted US investment abroad, halting flows to Western Europe completely, while other measures were aimed at encouraging American firms to repatriate profits earned abroad.

Both the ban on new foreign investment and the encouragement of capital and profit repatriation had consequences for Europe, and Italy in particular. Foreign investment by large US companies was equal to \$3.5 billion in 1966, of which \$1.8 billion were invested in Europe. In the first half of 1967 investment amounted to \$1.3 billion, of which \$727 million was directed to Europe. Total profits earned by US firms abroad rose from \$4.9 billion in 1964 to \$5.6 billion in 1966.³⁷

Foreign lending by US banks and financial institutions was also restricted, a step that was estimated would reduce the deficit by \$500 million. Short and long-term foreign lending by US banks totalled \$12.2 billion in 1967, of which \$2.2 billion went to Europe. Finally, US citizens were urged to reduce their foreign travel.

These temporary measures were accompanied by others with more lasting effects, such as a programme to increase US exports, including financial aid, and the renegotiation of some GATT rules, which the United States felt had harmed its exports and excessively favoured those of Western European countries. These two steps were also expected to reduce the balance of payments deficit by \$500 million. At the same time, liquidity restrictions were imposed on banks, income taxes were raised, and so on.³⁸

Of these measures, those that most directly affected Europe, and therefore Italy, were the reduction of foreign investment and the restrictions on foreign

³⁵ On these events see M.C. Webb, *The Political Economy of Policy Co-ordination. International Adjustment since 1945*, (Cornell University Press, Ithaca, 1995), pp. 122 *et seq.*

³⁶ Stamatii, "After Rio", p. 5.

³⁷ Totalling about \$3.5-4 billion, the US deficit in 1967 was the largest since 1960, when it had been about \$3.9 billion. It declined to \$1.3 billion in 1965 and remained broadly the same in 1966.

³⁸ Emilio Colombo, "America's economic measures and their effects on the Italian economy", *Review*, XXII, 2 (March 1968), pp. 80-81, 83.

* *Ibid.*, pp. 81-82.

bank lending.³⁹ At the end of 1966 most US investment in Europe went to the oil industry (25 per cent) and manufacturing (55 per cent). Within the latter, US investors focused on machinery, chemicals and transport equipment and directed most of their financing to the United Kingdom (35 per cent), Germany (19 per cent), France (11 per cent) and Italy (7 per cent). Of the total, 75 per cent was financed with capital from the United States and 25 per cent was financed by reinvesting undistributed profits.

According to Emilio Colombo, the restrictions imposed by Johnson prompted borrowers to turn to the capital markets, causing interest rates to rise.⁴⁰ Nevertheless, the rise in Italy was certainly small, given that US investment in the country was less than \$90 million.⁴¹ Nor, Colombo added from his position as minister, would the Italian government have failed to provide support to Italian-American firms cut off from the flow of dollars, especially as Italy's foreign reserves totalled 3,277 billion lire at the end of 1967, of which 62 per cent was gold or convertible currencies, four times the amount of reserves lost between August 1963 and March 1964, when the recession in Italy had given rise to a large balance of payments deficit.⁴²

The measures taken by Johnson came against the background of the turbulence that had been buffeting the international monetary system since the Bretton Woods agreements were signed and had particularly shaken the pound. According to Louis Camu, president of Banca di Bruxelles,⁴³ only three of the eight crises⁴⁴ in which sterling had played a central role between 1947 and 1965 were caused by balance of payments deficits. The other five were mainly or solely the result of speculative attacks. Nevertheless, sterling's role in international commerce emerged from its troubles gravely damaged, being used to finance only about 25 per cent of trade in 1968.

The dollar took advantage of sterling's decline to gain universal acceptance as a means of payment, with the monetary parities of most currencies being set in relation to the dollar. However, even the dollar began to weaken as one of the pillars of the international monetary system, especially after the Interest Equalization Tax restricting the export of capital was imposed in 1963. The tax was strengthened even further at the end of 1964, when the outflow of capital from the United States accelerated.

³⁹ As Colombo noted, between 1950 and 1966 US foreign investment grew fivefold, rising from \$12 to \$4 billion, but, while that flowing to Canada increased five times and that to Latin America more than doubled, investment in Europe grew by about ten times. *Ibid.*, p. 87.

⁴⁰ *Ibid.*, pp. 87-88.

⁴¹ *Ibid.*, p. 90.

⁴² *Ibid.*, p. 92.

⁴³ Louis Camu, "The future of monetary co-operation in Europe", *Review*, XXII, 2 (March 1968), p. 105.

⁴⁴ For more on the pound during the 1950s and 1960s, see C.A. Schenk, *Britain and the Sterling Area from Devaluation to Convertibility in the 1950s*. (Routledge, London-New York, 1994), pp. 3 *et seq.*

According to Camu, the restrictions limited the convertibility of the dollar.⁴⁵ The balance of payments deficits of the United Kingdom and the United States therefore exposed the weaknesses of the existing international monetary system. If these two key countries had balanced their external accounts, there would have been serious liquidity shortages, especially in the developing countries.⁴⁶

Thus, in Camu's view, just as the dollar was strengthening its position, its role as a reserve currency was weakened, as firms were disinclined to set their prices in a currency of uncertain stability and incomplete convertibility.⁴⁷ This meant that the gold exchange standard did not offer the guarantees that the market was seeking. However, Camu argued that a return to the pure gold standard was neither advisable nor practicable,⁴⁸ considering that the inevitable rise in the price of gold would have led to widespread deflation. Thus, the only solution appeared to be a reform of the IMF. Like Triffin, Camu recommended increasing the IMF's powers to make it an international central bank that could lend to countries with temporary financial difficulties, noting that the creation of SDRs was a step in this direction. After all, their creation owed something to the effective contribution of the European Community, which had proved to have a more rigorous monetary policy stance than that of the United States or the United Kingdom. The six EEC countries had never failed to reach agreement, with their monetary cooperation being guided by the Community's Monetary Committee, which, among other things, had intervened decisively in the Italian crisis of 1963.⁴⁹

Like Camu, Guido Carli rejected any return to the gold standard, arguing that gold would not have been able to ensure that the rapid growth in world trade could be financed.⁵⁰ He did not consider practicable a proposal to reinforce the monetary and economic links between the EEC countries by fixing the exchange rates between their currencies, which would have then fluctuated together with respect to other currencies. Among other objections, it would have hindered the entry of the United Kingdom into the Community.⁵¹

A few months later it was the turn of Helmut Lipfert, a director on the board of the Westdeutsche Landesbanke Girozentrale of Dusseldorf, to set out his

⁴⁵ *Ibid.*, p. 106.

⁴⁶ *Ibid.*, p. 107.

⁴⁷ *Ibid.*, p. 108.

⁴⁸ *Ibid.*, p. 109.

⁴⁹ *Ibid.*, pp. 109-111. The first steps towards monetary cooperation within the Community were taken between 1958 and 1961 in response to persistent balance of payments surpluses. The committee of central bank governors of the six countries was created during that period to coordinate action with regard to issues concerning exchange rates and international monetary policy. See A.J. Kondonassis and A.G. Malliaris, "Monetary union and economic integration: the less developed areas of the European Community", in T. Gesgikopoulos, C.C. Paraskenopoulos and J. Smith (eds.), *Economic Integration Between Unequal Partners*, (Edward Elgar, Cheltenham, 1994), p. 235.

⁵⁰ "International and Italian monetary problems in the Bank of Italy's report", in *Review*, XXII, 4 (July 1968), p. 281.

⁵¹ *Ibid.*, pp. 282-283.

position in the pages of the *Review*. While giving credit to the Bretton Woods system for have helped to foster an extraordinary increase in prosperity, he expressed doubt about the wisdom, given the circumstances, of retaining it in its existing form. Rejecting the use of gold in a monetary role, Lipfert suggested subordinating the operation of the IMF to two conditions: no member country could change its monetary parity by more than 2 per cent, and any change in parity would have to be announced at least twelve months in advance.⁵² Meanwhile, the foreign exchange market continued to experience considerable turbulence and the devaluation of sterling was followed by that of the French franc and the revaluation of the German mark. In Carli's view, these adjustments brought major benefits to the countries involved and the rest of the world.⁵³

Carli argued that, thanks in part to the devaluation, the British economy was moving towards a new domestic and international equilibrium, which would enable the country to repay the short and medium-term debt it had incurred in financing years of balance of payments deficits, thus eliminating one of the obstacles to its entry into the European Economic Community. Following the devaluation of the franc, France also seemed on its way to re-establishing domestic and external equilibrium, while in Germany, the appreciation of the mark would have eased pressures on real resources, especially if accompanied by other appropriate measures. By contrast, in the United States the inflationary pressures that had fuelled a strong expansion continued to increase, despite the counter-measures that had been adopted. Interest rates consequently rose, attracting short-term capital from the international market. At the same time, the leading industrial countries began to tighten their policy stances, especially monetary policy. Thus, at the beginning of 1970 these two trends were warning that the exceptional growth in world trade in 1968 and 1969 was about to give way to recession.⁵⁴ For this reason, Carli argued that the United States should ease its stance before the world was caught up in a deflationary spiral that would be difficult to control.

However, Carli did not overlook the fact that, as in Germany and Japan, the large net outflow of capital from Italy could not be sustained for long, and he warned that the leading industrial countries had a responsibility not to monopolize real resources in order to ensure that they would be available to the rest of the world.⁵⁵

⁵² Helmut Lipfert, "Problems and development of the international monetary system", *Review*, XXIII, 6 (November), pp. 542-543.

⁵³ Guido Carli, "International monetary policy of the moment, programs and outlook", *Review*, XXIV, 1 (January 1970), p.7.

⁵⁴ *Ibid.*, pp. 5-6.

⁵⁵ *Ibid.*, pp. 7-9.