

From Autarky to Reconstruction. Italian International Economic Policy

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On 18 April 1945, only a few days before the end of the war for Italy, winding up his report to the Bank of Italy' General Meeting (the first since Rome's liberation), Luigi Einaudi warned: "Italians have understood that if we want to be helped by the Allies, we have firstly to show that we know how to help ourselves. Only if we persuade them that we are ready to help our Treasury Minister in his difficult task.... will the Allies in their turn persuade their Treasury Ministers to help us and to allow their people to help us with money and goods"¹.

Seven years earlier on 31 March 1938, in a completely different situation, Vincenzo Azzolini, Einaudi's predecessor as head of the Bank of Italy, had delivered his own report. Speaking from an "internal" perspective and reflecting the political climate and the economic policies then prevailing - but at the same time drawing the necessary conclusions as far as international relations were concerned - he declared: "The ties between economy and politics, which history has shown to be ever-changing in substance and intensity, have emerged much more clearly in the pursuit, by numerous states, of systems of national or imperial economic autarky"².

Despite their having different motivations, these claims about the close link between economic and political aspects of international economic policy and between internal and international dimension

¹ Banca d'Italia (BI), *Report* 1945, p.81.

² Banca d'Italia (BI), *Report* 1938, p.13.

of economic policies (and of policies *tout court*) are in my opinion an essential premise to addressing the subject of Italy's international economic policy in the period of autarky and post-war reconstruction, which is the purpose of this essay.

I shall deal, therefore, with the growth of controls (carried out using diverse legal instruments) over international trade and foreign exchange and with the economico-political context (internal and international) in which controls were carried out and modified in the period 1934-1950, specifying, beforehand, that controlling trade and exchange means limiting "the rights of 'residents' in one country to develop obligations towards 'residents' in another country...", establishing "...the means through which such obligations have to be fulfilled..." as well as restricting "...the rights of 'residents' to spend foreign currency and the rights of 'non-residents' to spend national currency"³. We will then analyse the development of both "real" controls with the purpose of regulating trade flows both qualitatively and quantitatively and "currency" controls with the aim to set out rules for the regulation of international transactions.

Lastly I wish to specify that it would not be justifiable to restrict the period of analysis merely to the post-war reconstruction. Although, for obvious reasons, this would allow for more homogeneity, it is also true that the origins of the institutions and rules governing international economic policy in the period of the reconstruction go back to the period preceding the end of the war when both continuity and innovation were evident in the formulation of such a policy. Therefore we need to look at institutions and policies which go back to the mid-1930s.

On an international level, this period was characterized by:

- 1) a trade slump due to the recession caused by the 1929 crisis,
- 2) monetary instability (devaluation of sterling in 1931 and of the dollar in 1933, establishment of two opposing currency blocs - the sterling-dollar group and the gold bloc - abandonment of the

³ G. Carli, 'Evoluzione della legislazione italiana sul controllo degli scambi e dei cambi', *Bancaria*, Rome, 1957, p.15.

- gold standard as a generally accepted principle of the international monetary system),
- 3) the resulting spread of economic nationalism (and of related quota-restriction, compensatory and currency-control mechanisms) and lastly
 - 4) high market liquidity.

In 1934, the Italian policy makers noted the continuing (or rather growing) weakness of the trade balance and (since 1928) the continuing reductions in the Bank of Italy's reserves, which according to the official view was due "mainly to overseas investments and to the purchase of foreign bonds and Italian bonds issued abroad on the part of the Italian market". This brought about "...the transfer of liquidity from reserves owned by the Bank of Italy in the interests of, and for the protection of, the national economy to those of the individual economy, consisting of a few thousand organizations and individuals"⁴.

Between May 1934 and March 1935, the Government reacted to this situation, which tended to worsen as the year went on, with a series of measures in the sphere of international economic policy which were of great structural importance. In addition to specific fiscal measures to discourage investment abroad, all exchange rates and foreign currency operations which did not respond to the real needs of industry, trade and tourism were forbidden, as well as the overseas purchase of Italian and foreign bonds issued abroad and the export of banknotes, cheques and bonds made out in lire⁵. Later⁶, the National Foreign Exchange Institute (*Istituto nazionale per i cambi con l'estero*) was granted a currency monopoly (with the obligation to sell to the Institute the currency earned from exports, which were in turn subject to approval) and all Italian citizens were obliged to offer and, on request, to sell to the Institute, their own foreign assets. Moreover,

⁴ BI, *Report* 1935, p.13.

⁵ RDL 26.5.1934 n. 804; DM 26.5.1934 (exports will be further shrunk by the DM 15.12.1934).

⁶ RDL 8.12.1934 n.1942; DM 8.12.1934.

Italian citizens were obliged to declare their own foreign assets, as well as foreign bonds and Italian bonds issued abroad, which they owned to the Bank of Italy, acting as an agent of the Institute, which was granted the exclusive right to handle an increasing number of clearing operations to settle payments deriving from bilateral trade.

In the first few months of 1935⁷, this rapid succession of foreign currency measures was followed by other measures which were explicitly aimed at defending the lira from the negative effects of increasingly protectionist customs regimes and from competitive devaluations⁸. The aim was to restrict imports (most import items - the so-called Table A - were subject to licence) and to regulate private compensations concerning goods, for which the National Fascist Institute for Foreign Trade (*Istituto nazionale fascista per gli scambi con l'estero*), previously known as the National Export Institute (*Istituto nazionale per l'esportazione*) was made responsible. At the same time currency barriers were further strengthened⁹ and the obligation to declare ownership of foreign assets and stock was extended to all banks, firms and individuals.

The grave political crisis, resulting in financial instability, was nonetheless worsening and led to huge outflows of gold to the United States and to a widening divergence between the sterling bloc and the gold bloc, the latter being forced to abandon the gold standard under the pressure of extensive speculation; on 1 April 1935 the Belgian franc was devalued, and this was only to be the beginning.

In such a critical situation, in which the idea and the practice of "managing currency" and "controlling the economy" were developing and spreading, reasons (closely connected to each other) of general political orientation and of specific "behaviour" in the field of international relations (I refer, above all, to the African adventure) placed Italy at the vanguard of such developments. Consequently

⁷ DM 16.2.1935; DM 1.3.1935.

⁸ Speech of Finance Minister quoted in *BI Report*, 1936, p.37 (also quoted in *BI Report*, 1935, pp.36-7, "Era facile.....Paesi").

⁹ RDL 17.1.1935 (L. 3.1.1936 coordinated the measures given in RDL 8.12.1934 and RDL 17.1.1935).

there was an increasingly marked tendency towards the “emergency economy”¹⁰; the launch, in September 1935, of the National Loan, aiming to provide the means for financing the African Campaign, and the setting up, a month later, of the Central Committee for Price Control (*Comitato centrale del controllo dei prezzi*), a direct emanation from the National Fascist Party, were two important features of the mobilization policy.

In the sphere of international economic policy the system of “managed currency” was officially sanctioned by the setting up in May 1935¹¹ of the Superintendency of Foreign Exchange (*Sovrintendenza allo scambio delle valute*) whose chief was appointed by the Head of government, to whom he was directly responsible. This was “basically an economic-political body which, while having the necessary authority to coordinate foreign purchases,....[was also granted] discretionary powers to establish and implement a preferential scheme for selecting the currencies to be used in foreign payments”¹². Right from the start it operated in close contact with the National Foreign Exchange Institute and with the National Fascist Institute for Foreign Trade and within a few months¹³ it rose to become Undersecretariat for Exchange and Foreign Currency (*Sottosegretariato di Stato per gli scambi e le valute*), taking over the functions of the Ministry for Corporations in matters concerning foreign economic relations, and was placed above the authority of the two aforementioned “specialized” institutions. In 1937 it was promoted to the status of Ministry¹⁴. The Inspectorate for Foreign Exchange and Currency Transactions (*Ispettorato per le operazioni in cambi e divise*) operating within the Bank of Italy exercised the powers granted to the Bank over such matters (such as powers to inspect), but the power

¹⁰ A paradigm of this tendency was the speech made by Mussolini to the National Assembly of Corporations on 23 March 1936 in which the national economy’s “Planning” was launched, an authentic programme to mobilize the country’s entire resources along the lines of the corporative economy.

¹¹ RIDL 20.5.1935.

¹² BI, *Report* 1936, p.38.

¹³ RDL 29.12.1935.

¹⁴ RD 20.11.1937.

hierarchy was clearly defined by the Governor himself in his 1936 Report, in which he declared: "After the recent measures which have placed the National Foreign Exchange Institute under the authority of the Undersecretariat of State for Exchange and Foreign Currency, the Inspectorate, which exercises its functions in the interests of the Treasury and on behalf of the National Foreign Exchange Institute, will enhance its main role of coordination between the Bank and the Institute itself"¹⁵.

The decision-making structure which had been emerging rapidly and coherently since 1934 was in fact directly related to the new role ascribed to foreign trade and thereby to international economic policy. This was made clear in the motion presented by the Finance Minister to the Fascist Grand Council, which was approved on 5 February 1936 and which declared that Fascist economic doctrine "recognizes the importance of foreign trade for the public interest, thereby justifying direct control by the Corporative State"¹⁶. In fact the basic principle underpinning the 1936¹⁷ bank reform was perfectly consonant with this view: the reform stipulated that both the collection of public savings - in whatever form - and the granting of credit were "public services" to be performed under the authority of an Inspectorate for Credit and the Protection of Savings and answering to a ministerial Committee presided over by the Head of government.

In such a context, in which basic tendencies and emergency measures were interwoven and tended to act upon each other, monetary provisions responded to the growing deficit in foreign trade and to the need to avoid the costs of high inflation. Such provisions moved towards a regime of managed currency with the "temporary" lifting in July 1935¹⁸ of the Bank of Italy's obligation to detain gold and convertible currencies in amounts which corresponded to the value of no less than 40% of total banknotes in circulation and any other form of negotiable paper payable on demand. With regard to foreign

¹⁵ *BI Report*, 1936, p.47.

¹⁶ Quoted in *BI Report*, 1936, pp.44-5.

¹⁷ RDL 12.3.1936.

¹⁸ RDL 21.7.1935.

currency regulations, existing laws were tightened¹⁹; from now on all foreign credit was to be sold to the National Foreign Exchange Institute, and all foreign stock was to be exchanged for Italian government bonds. The National Foreign Exchange Institute, which since the end of 1934 held the foreign exchange monopoly, was then granted the monopoly over the purchase of unrefined foreign gold in mid-November²⁰ (a few days before the proclamation of sanctions against Italy on 18 November 1935). In October²¹, the import of Italian banknotes whose export had been banned the previous year, was prohibited unless under ministerial authorization; those which had come into circulation again were subsequently frozen²² in a special non-interest yielding account.

The "economic block" of the last two months of 1935 after sanctions led to heavy pressure on the lira - despite official optimism about the structural²³ benefits of sanctions - and coincided with the continuing and worsening crisis of the gold bloc which resulted in the devaluation of the French and Swiss francs (September 1936) in the collapse of the gold bloc itself, in the emergence of exchange rate stabilization funds as a means of government intervention in the international financial situation, and lastly in the Anglo-American-French monetary agreement of 25 September 1936. This agreement - which was subsequently signed by other countries - restored a new, if somewhat precarious, equilibrium to the world system, based on "managed currency". This was similar to that reached in 1927-28 but immediately afterwards upset in 1929, with the devaluation of the sterling and the dollar in the early 1930s. Weakened by the experience of a system "under assault", the lira eventually followed the gold bloc currencies and on 5 October its gold parity was reduced by about 41%. In this way, according to

¹⁹ RDL 28.8.1935.

²⁰ RDL 14.11.1935.

²¹ DM 3.10.1935.

²² DM 16.11.1935.

²³ In the 1936 Report given by the Governor of the Bank of Italy (p.15) we can read for example: "In the speedy adjustment to the special situation which has developed in its economy, Italy has not only employed all its own resources for the present needs with wisdom and tenacity, but has strengthened and channelled the productive structure in order to guarantee greater independence with regard to foreign countries."

Government statements, it was possible to restore the "same rate with the major foreign currencies that had been fixed by the stabilization law of 21 December 1927 and which had afterwards been altered, to our disadvantage, by the subsequent devaluation of all the aforementioned currencies (those of the gold bloc, *editor's note*)"²⁴.

The structure of Italian international economic policy, above outlined, underwent no significant changes after the introduction of sanctions and before their revocation in July 1936. The general framework was reinforced²⁵, based on the Undersecretariat of State for Exchange and Foreign Currency, which had responsibility for regulating international economic relations. The National Foreign Exchange Institute, which came under the authority of the Undersecretariat and held the monopoly over foreign exchange and gold transactions. Lastly, for technical advice and matters, the Inspectorate for Foreign Exchange and Currency Transactions at the Bank of Italy was then in the process of being transformed from a private joint stock company into a state-owned institution.

Such a structure reflected the regulated, corporative, "national" and voluntaristic nature of the Italian economy in this period which was itself an effect of the sanctions and of their consequences (the collapse of exports to countries enforcing sanctions, together with counter-sanctions and trade diversion towards countries not enforcing sanctions, increasing difficulty in obtaining, and increasing need for, foreign raw materials and relative priorities in the allocation of currencies).

The revocation of sanctions, however, brought about a certain relaxation of the basic principles behind Italy's international economic policy from commercial and monetary point of view, with the aim to revive commercial and non-commercial relations with the rest of the world. For example, trading and industrial companies and organizations with large overseas operations were allowed to keep

²⁴ BI, *Report* 1937, p. 11. The alignment measure come after the inclusion in many commercial agreements of compensation premiums to be paid to exporters and of compensation rights to be charged to importers. Premiums and rights were successively abolished on the occasion of the devaluation of the lira.

²⁵ DM 4.3.1936; DM 23.6.1936.

accounts in foreign currency²⁶; likewise, foreigners and overseas residents were allowed to open "free accounts" - in lire or in currencies that were not subject to restrictions²⁷ - in banks acting as agents for or affiliated to the Bank of Italy. As regards trade, we should mention the negotiations and agreements with countries which had previously enforced sanctions and who now operated with Italy on the basis of the parity principle in regulating clearing trade.

Nonetheless, generally speaking and in a context of wide restrictions, 1937 witnessed an increasing recessive trend in international trade after the recovery of the previous year and growing political and financial instability, with the basic failure of the monetary agreement between the sterling-dollar bloc and the ex-gold bloc and large transfers of gold, firstly towards the United States and then Europe, in a situation of high market liquidity. In this context, the systematic management of foreign economic relations was an essential part of a system which aimed to be more autonomous and thus more controlled, and - by the same token - to be more controlled and thus more autonomous. In this respect, a statement in the Bank of Italy's Report for 1938 is most revealing: "Foreign trade, which according to traditional protectionist doctrine is a means for defending domestic business and prices, became part of a much wider strategy in economic policy when the internal economic structure and the balance of payments both fully emerged as crucial factors in relations between States²⁸."

The full significance behind the institutions and instruments of international economic policy created by Fascist Italy should therefore be understood in the light of the relationship of interdependence between autarky, development and power in a corporative regime. It is from this viewpoint that we should assess, for example, both the

²⁶ RDI, 28.12.1936.

²⁷ Other measures authorized banks to make advances to exporters based on the sums owed by foreign debtors which were to be regulated through clearing (RDI 11.1.1937), and authorized the Ministry of Finance to issue Treasury bonds in various foreign currencies for overseas purchase (DM 6.3.1937) while the unfreezing of foreign exchange account lire which had been blocked by DM 16.11.1935 continued throughout the year. At the end of 1937 (RD 6.12), provision was made for tax deductions on foreign capital invested in Italy.

²⁸ *BI Report*, 1938, p.13.

autarkic plans for production launched in the autumn of 1937 and the role of customs policy (of secondary importance in a system of directly controlled trade) as an instrument for making autarkic production more profitable²⁹.

The same international and domestic trends continued - and grew stronger - in 1938, the year of Munich, with international trade falling by 13% in terms of gold prices, despite a steady increase in industrial production as a result of rearmament programmes. Thus, in a context of persistent financial instability and monetary tensions the gap between domestic economic trends and international flows of goods and services widened. The loosening of international ties of interdependence and the tightening of the "autarkic way" to development were thus aspects of the same basic trend in many countries, including Italy, where the institutions governing international economic policy were bolstered (the Finance Ministry's responsibility for monetary policy was transferred to the Ministry for Exchange and Foreign Currency)³⁰ and other institutions were added, like the unitary organizations for purchases (both government and sectoral) with the aim of resolving the redistribution problems created by shrinking imports.

²⁹ We should specify that, while plans were being completed for the full autarkic programme, initial plans for autarky - referred to as 'indirect autarky' - allowed for a sufficient volume of import of raw materials and semi-finished goods both to meet the domestic demand for finished products and to promote production which could be exported. This policy was largely responsible for the big increase in Italy's trade deficit the year after the lira's devaluation.

A concise, 'official' account of autarkic policies can be found in F. Guarneri, "Autarchia e commercio estero", speech delivered at the Autarky Meeting on 30 October 1939, La Libreria dello Stato, 1939 (especially pp.12-13). Cf. the debate in the Senate on 26 May 1939 on the bill "Stato di previsione della spesa del Ministero per gli scambi e per le valute per l'esercizio finanziario dal 1 luglio 1939-XVII al 30 giugno 1940-XVIII" in Senato del Regno, "Resoconti delle discussioni", 1939, Rome, Tipografia del Senato, 1940, pp.110-21 (especially p.121). Numerous 'regime' accounts and summaries of the autarkic policy and its goals, institutions and implications can be found in *Economia italiana*. Cf. for example F. Virgilli, 'Per la nostra indipendenza economica', aprile 1938, pp.308-11; N. Palopoli, "Economia Autarchica", giugno 1938, pp.533-6; Idem, 'Scambi e valute in regime corporativo', giugno 1939, pp.550-5; R. Dalla Volta, 'La politica delle importazioni e delle esportazioni' novembre, pp.873-9; E. Morselli, 'Gli scambi e le valute nell'economia fascista', gennaio 1940, pp.5-7; S. Chiudano, 'Autarchia', ottobre 1940, pp.617-27.

³⁰ RD 14.3.1938, n.643.

Above and beyond the positive effects - significant as they were - on the trade balance (in 1938 the trade deficit narrowed considerably as a result of a big fall in imports and a slight rise in exports), it is important to stress two major "qualitative" consequences of Italian foreign trade policy³¹: the drastic concentration (about 70%) of trade to and from countries linked to Italy by clearing agreements and the change in the composition of goods traded (decreased purchases of foodstuffs, decreased purchases and sales of raw materials and semi-finished goods, increased sales of finished agricultural and industrial goods).

The year the war broke out in Europe saw a bolstering of the armament programme, the growth of foreign exchange controls and - in the last few months - capital controls, the dissolution of the sterling area, followed by a heavy depreciation of the British currency (with the further advance of the dollar as an anchor currency), great tension (after the outbreak of hostilities) on the price front, and priority given to gearing productive capacity to war purposes rather than to private enterprise (inflation and rationing being the two main instruments for achieving these ends).

As far as Italy is concerned, the economy adapted to the exigencies created by the new situation: it changed from being a crisis-managed economy into a war economy in the strictest sense. In the process of reconversion, international economic policy naturally played an important role, with another official statement about autarkical directives being issued by the Fascist Grand Council³² and with a series of restrictive monetary measures affecting both the import and the export of banknotes and lire bonds and - in the sphere of criminal law - monetary offences³³ (in the more serious cases crimes involving money were considered as crimes against the state and were therefore

³¹ For a detailed analysis of the structural changes in Italy's foreign trade, with special reference to the autarkic directives, cf., G. Tagliacarne, 'Evoluzione e mete del commercio estero' in *L'Economia italiana*, luglio-agosto 1939, pp. 655-71.

³² On 8 October 1939 the Grand Council voted for the following resolution: "On the eve of the first meeting of autarky's Supreme Committee, the Grand Council most strongly reaffirms that the battle for the nation's economic independence must be fought rapidly and strongly." (quoted in F. Guarneri, 'Autarchia e commercio estero', *op. cit.*, p. 31).

³³ DM 30.10.1939.

deferred to a special court, the Special Tribunal for State Security (*Tribunale speciale per la sicurezza dello Stato*)^{34 35}. With regard to trade, the Minister Guarneri had already declared in his speech to the Senate on 26 May that the licence regime by that time covered nine-tenths of imported goods. This system of control was reinforced by the unifying policy for foreign purchases and at the end of the year the licence regime was extended to all imports³⁶.

The fact that radical adjustment measures for war purposes at least in the sphere of international relations³⁷ were not deemed necessary, was made clear in a statement by the Governor of the Bank of Italy in his 1941 Report: "Italy's entering the war has not caused any kind of economic crisis in the country because from an economic as well as from an ideological point of view she had already been at war with the western powers for some time. After 1935, the drive towards economic independence had already brought us to undo most of the economic ties with countries who showed themselves to be our enemies and who controlled the international market for raw materials. In particular foreign trade had already been directed towards allied Germany, and free trade was replaced by a national, autonomous system of controlled currency: this facilitated the adjustment of our international trade to war conditions and enabled us to avoid foreign exchange crises"³⁸.

³⁴ L. 28.7.1939 n. 1097; in the past such questions had been regulated by RDL 5.12.1938 n.1928.

³⁵ To encourage emigrants and repatriates to bring their earnings into the country, L. 15.5.1939 n. 764 authorized the National Foreign Exchange Institute to grant on behalf of the Treasury premiums on sums in foreign currency transferred to Italy. DM 3.3.1939 obliged mortgage loan banks to declare to the Institute, and, on its request, to transfer to it, all credit from mortgage loans taken out or converted into lire in cases where the borrower had moved abroad or if his loan had been passed on to a person residing abroad.

³⁶ DM 28.12.1939.

³⁷ With L.25.9.1940 n.1424, new general rules for customs procedure and customs offences replaced the 1896 law. Two decrees issued by the Finance Minister on 14.2.1940 modified the charter of the National Foreign Exchange Institute and reorganized it. As regards laws regulating foreign exchange, DM 30.3.1940 authorized the aforementioned body to pay out - through authorized banks and under special management - adjustments on foreign global compensation operations in relation to free-currency purchase operations. This service stopped on 31 December however.

³⁸ *BI Report*, 1941, pp.21-2.

Instead, what seemed to emerge as a result of war on account of the fragmented state of world markets - which was partly due to the disruption of the main flows of intercontinental traffic caused by the blockades and counter-blockades of belligerent countries - was a new structure of world economic relations based on large, autarkic blocs on a continental scale with the consequent reorganization of both trade flows and currency settlement systems. In Italy this was idealized by those hoping for victory and projected into the post-war period. The hoped-for re-mapping of currency areas in Europe would lead to the marginalisation of sterling and to the rise of the mark and, outside Europe, to the strengthening of the dollar and the yen. Such developments would necessarily be accompanied by a considerable weakening of the role of gold³⁹, a tendency for foreign currency payments to disappear, and the extension throughout Europe of the system of multilateral compensation. This was already under way and would loosen the constraints of traditional bilateralism⁴⁰.

In practice, the government proved to be extremely active in pursuing bilateral agreements, especially with central-northern and south-eastern countries and above all (and not merely for economic reasons) with Germany; in February 1940 a major bilateral agreement was signed between Italy and Germany and trade between the two

³⁹ It is interesting to point out the Bank of Italy's tendency to play down the role of gold as time went on. In the 1935 Report (pp. 8-9) reference is made to the "... major economic struggle between countries belonging to the gold bloc and those in the sterling-dollar group.... the first being more healthy.... who are reaffirming the undeniable superiority of the gold principle with abnegation and sacrifices." The 1940 Report (p. 16), on the other hand, was becoming more critical of a "too strict acceptance of the gold reserve principle, no longer destined to control a country's economic activity but essentially a means for foreign payments." Finally in the 1941 Report (p.18), "Gold continues to be used as a means for international payments, but in the new economy even this function should become less important, if not immediately, at least as we get nearer to achieving an equilibrium in international trade."

⁴⁰ "...lateral clearings between European countries reorganized under the Axis Powers" are planned, for example in G. Ottello, 'Gli scambi esteri e la moneta', *L'Economia italiana*, novembre 1941, pp. 554-63 (especially p.526). Note also Governor Azzolini (BI Report, 1941, p.16): "The creation of temporary imbalances would occur in a multilateral system, too, but, at least as far as Europe is concerned, state management of the economy would help to eliminate them more speedily."

countries increased significantly (especially after the outbreak of war in Europe and even more so after Italy had entered the war). In 1940-41 imports from Germany rose from 41% to 63% of total imports, while exports to Germany rose from 41% to 59%⁴¹.

Although radical changes in the basic organization of trade and foreign exchange regimes were not introduced to deal with war needs, since the system was already geared towards meeting them⁴², it is evident that a large number of specific measures (for the most part restrictive)⁴³ were implemented. These included: 1) the decree⁴⁴ authorizing the Ministry for Exchange and Foreign Currency to set up producer associations for regulating the import and - something which was quite new - the export of certain foodstuffs, raw materials and industrial products or to entrust such associations and other bodies and companies⁴⁵ with the task of doing so; the decree also empowered the same Ministry to requisition goods to be exported and raw materials needed for the goods to be exported; 2) a law⁴⁶ which prohibited the sale of precious metals and objects containing such metals, with a ban on export unless under authorization; 3) a decree⁴⁷ stipulating the need for ministerial authorization in cases of transfer of Italian real estate or commercial companies to foreigners and purchases of shares in Italian joint-stock companies on the part of foreigners; 4) a decree⁴⁸

⁴¹ The agreements stipulated with Germany established and reconfirmed the principle according to which the supplying of war materials was to be undertaken without taking into consideration compensation accounts.

⁴² The Governor of the Bank of Italy proudly declared in his 1942 Reports that "Such ready and totalitarian intervention (of the state in the economy, *editor's note*) in countries under an authoritarian regime, which is the general rule in wartime and which is facilitated in those countries by peace-time implementation and founded on the principle that a country's interests override individual interests, has been slow, uncertain and insufficient in democratic countries".

⁴³ DM 26.10.1941 raised the maximum limit on banknotes which could be exported and imported. We will not mention here the numerous measures regarding exchange rates and trade in the annexed territories.

⁴⁴ RDL 13.1.1941 n.33.

⁴⁵ Profits were to go to the Inland Revenue (DM 21.12.1941).

⁴⁶ RDL 3.9.1941 n.882. This was subsequently relaxed in view of production and commercial needs (RD 17.10.1941, n.1330).

⁴⁷ RDI. 24.7.1942 n.807.

⁴⁸ RDI. 15.4.1943 n.249.

raising the licence fee on imports and introducing a similar fee on exports; 5) a decree⁴⁹ which, by creating new rules for imports, exports and foreign relations, increased the power of the Ministry for Exchange and Foreign Currency; 6) a decree⁵⁰ making it compulsory for Italians residing in Italy who possessed or who acquired foreign currency and gold as a result of non-commercial transactions to offer such gold and currency to the National Foreign Exchange Institute

It was precisely the Ministry for Exchange and Foreign Currency, that is to say the main decision-making body in the Fascist Regime's international economic policy with its authoritarian and "regulative" tendencies, which became the object of the first important law on such questions after the fall of the regime. This occurred in a political and institutional (as well as military) context in which national sovereignty was still divided up and limited and when armistice clauses prohibited Italy from pursuing an independent trade policy⁵¹.

In June 1944⁵² the Ministry was abolished and its functions were divided up between the Treasury (which now controlled the National Foreign Exchange Institute) as far as monetary matters were concerned, and the Ministry of Industry, Commerce and Labour (which now controlled the National Institute for Foreign Trade, with regard to foreign economic relations. Less than a year later⁵³ the National Foreign Exchange Institute was abolished and its functions passed on to a new body, the Italian Foreign Exchange Office (*Ufficio italiano dei cambi*) presided over by the Governor of the Bank of Italy, the

⁴⁹ RDL 19.4.1943 n.327.

⁵⁰ DM 14.7.1943.

⁵¹ Up until 31 August 1945 imports were carried on under the responsibility of the Allied Forces with the aim of guaranteeing supplies for the civilian population, while exports were restricted to small quantities of goods purchased by the Allies. The first official signs of a semi-independent Italian trade policy were two trade agreements, the first with Switzerland (but not ratified by the Allies) on 10 August 1945 and the second with Sweden on 24 November. For a general overview of Italy's international economic position in the aftermath of the war, cf. the *Annuario della congiuntura economica italiana 1938-1947* edited by the Istituto per gli studi di economia (ISE), Vallecchi, Florence, 1949 (especially Chapter XI, "Scambi con l'estero").

⁵² RD. 2.6.1944 n. 150, modified with D.L. Lgt. 5.10.1944 n. 310.

⁵³ D.L. Lgt.17.5.1945, n. 331.

latter providing it with its own special fund⁵⁴. In the same period other laws specified the distribution of responsibilities⁵⁵ in relation to trade flows. At the end of the year⁵⁶, the new institutional structure of international economic policy was completed with the creation of the Ministry of Foreign Trade which was made responsible for foreign economic relations and currency movements, previously entrusted to the Ministry of Industry, Commerce and Labour.

The new decision-making structure in international economic policy which emerged in 1945, like the overall policy-making structure that was taking shape in this period, originated in an economic context characterized by: a) the reduction by nearly a third of national wealth compared to 1938 (especially in housing and communications); b) a 20% fall in industrial productive capacity with enormous reconversion problems, a shortage of raw materials, an insufficient number of foreign outlets and a 40% fall in agricultural production; c) high inflation with geographical differentiation (higher in the central and southern regions than in the northern ones); d) a high actual and potential unemployment rate and a sharp fall in real wages⁵⁷.

In the face of such problems and given the aforementioned constraints posed by the armistice, certainly up until 1945 Italy was much more the object rather than the maker of international economic policy, even though she was gradually becoming more involved in international decisions. From July 1943 to the end of 1945 imports were guaranteed by a number of purveying programmes (mostly for finished products) implemented by the Allied Control Commission and afterwards by the US Federal Economic Administration (FEA), while the aid programme run by UNRRA (United Nations Relief and

⁵⁴ In this way the structure of authority was revived essentially on the lines set up after the Bank Reform of 1926, to the advantage of the Bank of Italy. The latter was also made responsible for regulating trade with the Allies (D.L. Lgt. 11.12.1944 n. 446).

⁵⁵ D.L. Lgt. 28.5.1945, n. 370. These fell under the National Foreign Exchange Institute, the Ministry of Industry, Commerce and Labour, the Treasury and the Food High Commissary's Office.

⁵⁶ D.L. Lgt. 22.12.1945, n. 809 and subsequent D.Lgt. 16.1.1946, n. 12.

⁵⁷ Cf. for these issues the *Annuario della congiuntura economica italiana 1938-1947*, op.cit., pp.1-6.

Rehabilitation Administration), on the basis of an agreement with the Italian Government, was being carried out⁵⁸.

In the second half of 1945, however, alongside international purveying measures and Italy's own measures for reforming the institutional structure of a (future) international economic policy, Italian policy makers produced specific measures aimed at relaxing external constraints to achieve the country's main post-war objective: recovery in production⁵⁹. One important measure (the first in a series of measures aimed at dismantling the constraining superstructures of the autarkic regime) was the removal of export duties and the abolition of the special foreign customs duty on exports⁶⁰. With regard to foreign currency, but still with the aim of removing obstacles to the revival of exports (handicapped by the low exchange rate, of 100 lire per dollar) a "Fund for Adjustment to International Prices" (*Fondo per*

⁵⁸ The agreement was signed on 8.3.1945 and approved with D.L.Lgt. 19.3.1945 n.79; implementation procedure was issued with D.L.Lgt. 4.1.1946 n.5. The "internal" political and diplomatic aspects of American economic aid also in relation to Italian political developments up to the Marshall Plan are examined in J Harper, *America and the Reconstruction of Italy, 1945-48*, Cambridge University Press, 1986 (Italian translation: *L'America e la ricostruzione dell'Italia 1945-1948*, Il Mulino, 1986). On this subject see also *BI Report*, 1947, pp.46-51.

⁵⁹ Claims on behalf of a very close - if not exclusive - relationship of causality between Italy's foreign economic relations and 'industrial reform' (and social reform) with regard to the objectives of productive recovery can be found in G. Carli, *La riforma industriale in Italia*, Partito Liberale Italiano. Rome, settembre 1945 where it is stated that "...industrial reform will be achieved not so much by the extension or restriction of state intervention in industry, nor by calling upon workers to participate in the running of the companies they are employed in, as by replacing the closed market policy with the free-market policy, with the abandonment of economic autarky" (p.3). Such policies were held responsible for having destroyed wealth, for having caused hostilities, for having strengthened the regime of monopoly and for having extended the sphere of government intervention in the economy. Indeed it is claimed that (p.5) "The legacy of autarky is more damaging than the material misery which afflicts us. It is the corruption of political conduct"; pp. 12-13 present an excursus of the socio-economic origins of autarky from the last decades of the nineteenth century which are summarized in the following sequence: labour surplus - emigration - emigration difficulties - boost of domestic employment - decreasing returns - increasing demand for autarkic protection.

⁶⁰ D.L.Lgt. 8.8.1945, n. 428. The same tendency can be found in DM 31.7.1945 (the non-appliance to metallic money of the obligation to transfer foreign currency), in D.L.Lgt. 31.7.1945 (reduction of penalties for foreign currency offences) and in D.L.Lgt. 21.9.1945, n.712 which exempted from customs duties goods destined for the allied forces.

l'adeguamento ai prezzi internazionali)⁶¹ was set up. This fund drew on an additional sum corresponding to 125% of the countervalue - at the official exchange rate - of all currency purchased, which was paid by importers to the Italian Foreign Exchange Office and was used so that exporters could draw on an equal additional sum for currency sold. Within a short period⁶², this mechanism was extended to a large number of non-commercial operations; in the early months of 1946 nearly all transactions were carried out on the basis of a higher exchange rate: 255 lire per dollar.

On the other hand, the formal scheme regulating trade agreements, including those that had been signed or were being drawn up right up to the end of 1945, was, generally speaking, still the pre-war policy based on bilateral clearing, with trade being subjected to licensing regimes and payment procedures that were entrusted to monopolistic public bodies, and extra restrictions (authorizations) imposed by the Allies on goods (mostly raw materials, textiles and foodstuffs) included in the so-called "Reserved Commodity List." Nonetheless, glimmerings of liberalization (one year had already passed since the signing of the Bretton Woods Agreements on July 22 1944 which clearly set out the basic conditions of international economic organization sought by the majority of countries) emerged in several agreements to open up credit (whether reciprocal or not) and (in the case of France and Denmark) through acceptance of the principle of regulating possible clearing imbalances using a third currency.

The year 1946 was the turning point in Italy's international economic policy (in October Italy was admitted to the Bretton Woods institutions⁶³). After the restoration of the faculty of private trading (which occurred in February, except in the cases of Japan and

⁶¹ D.L.Lgt. 4.1.1946 n.2. The amount of the additional quota was fixed by DM 18.1.1946.

⁶² D.L.Lgt. 28.1.1946.

⁶³ The bill on Italy's participation was approved by the Constituent Assembly on 15 March 1947. The limits to Italian membership, determined especially by the situation with regard to Italy's balance of payments, were clearly laid out in the 1947 *BI Report* where we may read (p.42) that "Italy's joining the Bretton Woods System depended not so much on direct and immediate benefits as on the wish to show its full acceptance of the ideals of international cooperation which inspired it". In fact "The

Germany), a packet of strategic currency liberalization measures was adopted at the end of March⁶⁴: with regard to trade settled by means of payment (dollar, sterling and French franc) not covered by bilateral agreements. Italian exporters were entitled to draw on 50% of the foreign currencies earned in accounts held in the Bank of Italy or its agencies; these currencies were negotiable and could be used, within fixed time limits (first 90 and then 60 days accordingly) for importing primary goods and materials.

The new rules which led to the rise of a market for export currencies, making it much quicker for operators to acquire means of payment on foreign countries and decentralizing currency operations through banks⁶⁵, were controversial and led to major repercussions. Dangers of discrimination among exporters, trade diversion towards countries with free currencies, negative effects in terms of inefficient allocation of resources deriving from the plurality of prices demanded for traded goods, the possibility of upsetting the exchange rate on account of the relatively small size of the free market⁶⁶, and of distortions deriving from the increased number of exchange transactions, were all pointed out⁶⁷. As for the repercussions, the most dramatic was the rapid and sharp rise in the exchange rate

agreement enables..... in the early years of the Fund's operations.....countries occupied by the enemy, including Italy, to keep and, if necessary, to introduce discriminatory monetary measures and restrictions on payments and transfers, including current international transactions. Taking winding roads which lengthen the journey but which soften the steepness of the climb may be the only way open to us for reaching a very difficult goal" (ibid. pp.42-3).

⁶⁴ D.L.Lgt. 26.3.1946 n.139. Measures directly connected with the one quoted are: DM 13.4.1946; DM 31.5.1946; DM 3.9.1946; DM 20.8.1946; DM 20.1.1947.

⁶⁵ For a summary of monetary laws in the period under study cf. G. Carli, *Verso il multilateralismo degli scambi e la convertibilita delle monete*, Bancaria, Rome, 1955, especially Chapter XIII, "La legislazione del dopoguerra", pp.275-86.

⁶⁶ A hostile attitude towards the currency measures taken in March 1946 was adopted, for example, by G. Carli in 'Osservazioni sulla disciplina degli scambi con l'estero e dei cambi' in *Critica economica*, 1946, n.1, pp.23-30 and Idem., 'La disciplina degli scambi con l'estero e dei cambi nell'esperienze recenti', *Critica economica*, 1946, n.3, pp. 31-6. According to Carli, in a situation characterized by a) international restrictions (the reference is to the quota restrictions on raw materials imposed by the Combined Raw Materials Boards) and internal restrictions (US regime of export licences) on movement of goods, b) generalized currency restrictions (currency areas and various

of the foreign exchange account lira *vis-à-vis* the official rate, pushed up by the introduction of a surcharge which, in the case of the dollar and the sterling⁶⁸, was mainly due to the demand for currency for the import of raw materials used in textile manufacturing. As a result restrictive measures were adopted for imports⁶⁹, leading to a considerable fall in the exchange rate.

Yet at the beginning of February the situation began to worsen again both for commercial reasons and on account of speculation. Discrimination against those in possession of currency earned on non-commercial transactions (particularly the receivers of emigrants'

controls); and c) the specific constraints imposed on Italy by the terms of the armistice (in particular the reference to the official exchange rate to establish the costs of occupation in lire), it was necessary, given the expectation of continuing difficulties in the balance of payments and with the aim of avoiding distortions in the use of the exchange rate for international payments, to reinforce rather than weaken the already partial control exercised by the Italian Foreign Exchange Office on currency resources. This would be done by obtaining from the Allies the release of the commercial exchange rate from that used for regulating the financial arrangements stipulated on the occasion of the armistice, without, however, forgetting the substantial real problems of Italy's foreign trade, especially those caused by the loss of trade outlets as a result of the war.

The effects of the changes in international trade flows and of speculation against the lira are acknowledged by P. Baffi in "L'evoluzione monetaria in Italia dall'economia di guerra alla convertibilità (1935-1958)" in P. Baffi, *Studi sulla moneta*, Giuffrè, Milan, 1965, pp.225-315 (especially pp.259-61). However the March measures are basically defended by Baffi; in particular the two-tier exchange system was considered to be ... "in harmony with the dualistic price system (official and black market, *editors' note*) in force in those years" (p.260).

⁶⁷ In the second of the studies cited, Carli refers to six distinct exchange rates: alongside the official one (255 lire per dollar) were the rates arising from the negotiation of export currencies, illegal rates, rates established by private compensations and those established by the prices of goods imported by the state and UNRRA.

⁶⁸ During 1946 the dollar went as high as 600 lire (monthly average) in the month of October (the highest level in September was 675) against an official rate of 225 lire. Sterling rose to 1967 (monthly average) in the same month (2060 was the highest level in September) against an official rate of 907.31. The Swiss franc reached a high of 186 lire (monthly average) in November (in December it stood at 204) against an official rate of 52.45 lire (cf. BI Report, 1947, pp.62-3).

⁶⁹ The Foreign Trade Minister revoked in September the right already granted to the customs authorities to issue cotton and wool import permits for manufactures on behalf of foreigners, assuming direct responsibility in this field. DM 26.9.1946 removed wool and cotton from the list of authorized imports and subjected them to the ministerial licensing regime.

remittances), which was implicit in the measures adopted in March, led firstly to restrictive measures aimed at eliminating abuses (committed mostly through duty-free imports)⁷⁰ and later to new regulations⁷¹ by which the 50% currency concession was extended to currency earned in non-commercial operations. In this way alongside the official exchange rate, a fluctuating rate was created for a much larger market than the one "engineered" by the measures taken in March in which free currencies, regardless of origin, were traded.

Regarding the effects of trade diversion from countries with whom clearing agreements had been stipulated towards free-currency countries, these were admitted even by the Bank of Italy⁷², although they were somewhat mitigated by the development of the so-called "reciprocity" (which was in turn to give rise to a "reciprocity exchange rate"), a form of trading based on private compensation but part of the clearing system⁷³. Thus on the one hand such trade was handicapped by the need to find exchange commodities in the country receiving Italian exports but it had the advantage of enabling the Italian exporter to realize the full exchange rate on the entire sum earned. In the numerous clearing agreements stipulated or renewed throughout 1946, ways to mitigate the classic formula of bilateralism were frequently adopted, such as great flexibility in the principle of reciprocity and the possibility of settling payments in free currency.

⁷⁰ In the case of duty-free imports, authorized for the use of pre-existing foreign credit, direct import through customs was allowed - as an exception and temporarily - for goods coming from countries with whom no agreements had been stipulated, on the condition that importers would not ask for currency allowances and would not open up credits in lire for the benefit of foreign sellers.

⁷¹ DM 20.1.1947.

⁷² *BI Report* 1947, pp.66-7. Here it is written that "...the difference between trade with free-currency countries and trade with countries with whom we have trade and payments agreements hampers exports to the latter countries and encourages imports from such countries; therefore it may happen that exports to clearing countries take place through the free-currency countries and imports from free-currency countries through the clearing countries.."

⁷³ Such trade was regulated on the basis of special compensation sub-accounts opened for each transaction.

After the measures adopted in the spring of 1946, another fundamental stage in the development of Italy's international economic policy was the decision taken at the end of 1947⁷⁴ authorizing the Italian Foreign Exchange Office to purchase 50% of the export currencies handed to it not at the official rate of exchange - which was moreover very high in August at 350 lire per dollar, with the abolition of the surcharge⁷⁵ - but at a rate based on the average rate offered on the free market in the previous month, excluding from the calculation the extreme values⁷⁶. Thus the official exchange rate became, technically speaking, a IFEO purchase exchange rate and this in turn was in practice an "adjusted" market exchange rate.

The measure, which came at the end of a period of extreme instability with the depreciation of the lira's exchange rate⁷⁷, can be viewed as completing the stabilization measures adopted in the summer (the so-called "Einaudi stabilization"⁷⁸). Above all, it consolidated the stabilization (already under way in the middle of

⁷⁴ DL 28.11.1947, n.1347. For comments, see M.R., 'Il nuovo regime valutario' in *Critica economica*, 1947, n.9-10, pp.107-9.

⁷⁵ DL 1.8.1947, n.693, and DL 2.8.1947.

⁷⁶ Quotations below 350 lire per dollar and above 650 lire per dollar were specifically excluded from the calculation. The 60 day deadline for the utilization of the available quota was confirmed with a penalty amounting to 20% on the purchase price imposed on operators who did not keep within the deadline.

⁷⁷ In the first five months of 1947 the dollar exchange rate went from an average monthly rate of 528 lire in January to 906 lire in May, reaching a peak of 927 lire (cf. BI Report, 1948, p.61).

⁷⁸ Among the numerous works which refer to the "Einaudi stabilization" and to the context in which it operated, in addition to the already mentioned study by P. Baffi, "L'evoluzione monetaria in Italia dall'economia di guerra alla convertibilita (1935-1958)", see by the same author, "Stabilita monetaria e sviluppo economico in Italia, 1946-1960" in P. Baffi, *Studi sulla moneta*, op.cit., pp.317-45 and "Memoria sull'azione di Einaudi 1945-1948", *ibid.*, pp.177-93. See also, A.O. Hirshman, 'Inflation and Deflation in Italy' in *The American Economic Review*, September 1948, pp.598-606 and E.S. Simpson, 'Inflation, Deflation and Unemployment in Italy' in *The Review of Economic Studies*, 1949-50, pp.203-25. On the monetary situation before the 1947 measures, cf. P. Baffi, "Il problema monetario italiano sullo scorcio del 1944" in P. Baffi, *Studi sulla moneta*, op.cit., pp. 133-76 and W.D. Grampp, 'The Italian Lira 1938-45' in *The Journal of Political Economy*, August 1946, pp. 309-33 (cf. also Einaudi's speeches to the Constituent Assembly, 24.9.1946 and 23.7.1947).

1947) of the exchange rate, bringing it to a non-crisis level⁷⁹. Moreover, by reducing the post-war “abnormality” of the system - reflected in the large number of exchange rates (rates applied to compensation agreements were increasingly adjusted to the dollar rate) - it corrected major distortions in the system deriving from wide discrepancies between official and free-exchange rates, to the detriment of those industries, especially textile and ship-building, which exported goods made with a large quantity of imported material (attempts had already been made to lessen such distortions with specific measures⁸⁰). In addition, by causing a further devaluation of the lira, it aided the process of internal deflation which was under way as a result of the stabilization measures by boosting exports, the effects of which could clearly be seen in the following two years (in 1948 exports rose by 60% in current dollars and the ratio between exports and imports rose from 47% in 1947 to 71%⁸¹). Lastly, by gradually orienting the foreign

⁷⁹ From December 1947 to February 1948 the lira exchange rate was stable at around 570 lire per dollar. The currency emergency of September 1947 (which was worrying largely on account of the running down of the nevertheless scarce currency reserves accumulated in 1946 and the effects of the inconvertibility of the sterling announced on 20 August 1947) is considered by P. Baffi in “L'evoluzione monetaria in Italia...” *op.cit.*, p.266 with reference to a study made by the then General Director of the Bank of Italy, Donato Menichella (quoted in the same work, p.310, note 46).

⁸⁰ To benefit certain categories of operators the 50% concession of export currencies was raised. For a review of such sectoral measures, some of which had the aim of increasing the supply of export currencies on the free market and thus controlling the increase in the exchange rate (just as others, like the exclusion of certain products from free importation and the increase in the licence fee on imports fixed by DL 12.8.1947 n.822, had the aim of curbing demand for the same purpose), cf., P. Baffi, *Studi sulla moneta. op.cit.*, p.191. For a more detailed and critical overview of the problems arising from the monetary regulations in force before the 1947 measures, especially those concerning distortion and discrimination, cf., G. Carli, ‘Commercio estero e cambi’ in *Critica economica*, 1947, n.9-10, pp.35-49.

⁸¹ Between 1947 and 1948 the export/GNP ratio rose from 6% to 9.6%. In 1947 the trade deficit (from the currency point of view a dollar deficit) amounted to 612 million dollars after the deduction of 286 million dollars of free imports, as part of American aid (UNRRA and afterwards AUSA- Aid United States of America - in addition to various donations and to the Interim Aid Program set up between the end of 1947 and the beginning of 1948 to cover the gap while waiting for the ERP to come into force). Insufficient food production, the closure of outlets (Germany), impoverished export markets alongside the reduction of the compensating effect of the invisible surplus (tourism and shipping) were among the main causes of the trade deficit. In 1948 the

exchange market towards the "hoped-for uniformity"⁸², Italian laws were now compatible with the objectives of the monetary reform agreed upon by the IMF, an institution which Italy had officially joined at the end of March⁸³ (in 1947 Italy had once more taken on full responsibility for its foreign supplies and for the acquisition of the necessary currencies).

These objectives were, in turn, part of a general policy of resource mobilization which the sixteen countries involved in the European Recovery Program (ERP) had committed themselves to. The ERP was pre-announced in 1947 and was more fully elaborated upon in the following year, with the aim to bring about by 1951 a re-equilibrium in the balance of payments of the member countries (countries who were to form the Organization for European Economic Cooperation - OEEC - in 1948)⁸⁴. In this context of cooperation a multilateral monetary agreement was signed in Paris on 18 December 1947 by the three Benelux countries, France and

trade deficit was practically halved (320 million dollars). On the problems of Italy's foreign trade in the aftermath of the war, and especially on the programs to remedy them, cf., *Piano per le importazioni e le esportazioni industriali nell'anno finanziario 1947-1948* published by the Centro di studi e piani tecnico-economici, Comitato interministeriale per la Ricostruzione (especially the "Introduction"). For reviews and comments on previous analogous documents, see also, G. Landriscina, 'La riattivazione industriale italiana' in *Critica economica*, 1946, n.2, pp.98-109 and G. Mirabella, 'Considerazioni sul piano di massima 1946-47' in *Critica economica*, 1946, n.4, pp.81-9.

⁸² *BI Report*, 1948, p.73. In view of the fixing of the lira exchange rate parity, the report emphasizes the importance of 'correct' that is 'economic' exchange rates between the other currencies as a fundamental condition for non-biased effects of appropriately correct exchange rates between the lira and the dollar and thus between the lira and other currencies.

⁸³ The IMF began to operate on 1 March 1947; Italy's membership, with the special conditions provided by the charter (especially with regard to the deadlines for fixing parity and multiple exchange rates) dates from 27 March, the day on which Italy also became a member of the International Bank for Reconstruction and Development which had begun to operate in June 1946.

⁸⁴ Through French and Italian initiative and under the influence of the program of economic cooperation launched at the Paris Conference and of American calls for regional economic and customs unions, talks and negotiations about the planned Italo-French customs union were carried on in the same climate of "international cooperation" (*BI Report* 1948, p.45). On the progress of the project and its eventual failure cf., E. Serra, "L'unione doganale italo-francese e la Conferenza di Santa Margherita (1947-1951)" in J.B.Duroselle-E. Serra (eds.), *Italia e Francia (1946-1954)* Angeli, 1988, pp. 73-114.

Italy, but open to other European countries. On the basis of this agreement member countries, at their own expense, were to make monthly multilateral compensations among the balances resulting from the application of existing bilateral agreements, before demanding settlements in gold and currency⁸⁵.

The second agreement on intra-European payments, signed in October 1948⁸⁶, provided for a structural link between the settlement of European trade balances and the implementation of the ERP (the Marshall Plan⁸⁷ had come into force in the month of April). A portion of ERP funds - the so-called "conditional indirect aid" - was awarded to participant creditor countries (free of charge and in dollars) as a counterpart to drawing rights granted by the latter to debtor countries, in proportion to the estimated deficit in one country's balance of payments with another (bilaterally agreed upon by the OEEC)⁸⁸. Despite the innovatory aspects of the agreement, the "relative smallness"⁸⁹ of the compensations brought to light its limits and

⁸⁵ The agreement, whose results were defined in Italy as 'extremely modest' (BI Report, 1948, p.27), given the entity and persistence of existing imbalances, was administered by the Bank for International Settlements and envisaged both full and temporary membership (in the latter case countries were exempted from the obligation to accept the proposed compensations). For a detailed analysis of the payments agreements between European countries in the period 1947-1950 cf., R. Tremelloni, 'Gli accordi per i pagamenti intraeuropei' in *Critica economica*, 1950, n.2, pp.7-33 and also F. Coppola D'Anna, 'Accordi valutari intraeuropei' in *Critica economica*, 1950, n.5, pp.20-5.

⁸⁶ Cf. R. Tremelloni, 'Gli accordi per i pagamenti intracuropei', *op.cit.*, pp.13-24.

⁸⁷ For two substantial collections of documents on the origins, contents and early workings of the Marshall Plan, cf. *Documenti sul Piano Marshall* edited by ISE, Vallecchi, 1948 and *Documenti sul Piano Marshall nel primo anno di attuazione* edited by ISE. Istituto Editoriale Italiano, 1949. See also *Il Country Study dell'E.C.A. sull'Italia* edited by ISE, Istituto Editoriale Italiano, 1949 and the pamphlet *Tecnica e procedura del Piano Marshall* edited by the Ufficio tecnico per la divulgazione del Piano Marshall, Vallecchi. For contrasting opinions at the time the Plan came into force, cf., A. Pesenti, 'Il Marshall Plan', *Critica economica*, 1948, n.1, pp. 9-59; G. Stammati, 'Perché il Piano Marshall?', *ibid.*, pp.72-5. For a recent interpretation of the principles underlying the Plan, cf., G. Fodor, 'Perché nel 1947 l'Europa ebbe bisogno del Piano Marshall?', *Rivista di storia economica*, 1985, n.1, pp. 89-123.

⁸⁸ "...it would be like if, paying in dollars, America bought goods in a participant European country to give to another European country" (ISE, *Annuario della congiuntura economica italiana 1948*, Edizioni ISE, Milan, 1949, p. 444).

⁸⁹ BI Report, 1949, p.19.

inadequacies⁹⁰. As regards Italy, for whom the overall results of the agreement were also limited, the most important development in the year of the implementation of the ERP in the monetary field was the payments agreement signed with the United Kingdom at the end of November by virtue of which sterling operations were to be handled by the Italian Foreign Exchange Office as a monopoly on the basis of a fixed parity with the dollar⁹¹. The agreement, which restored the official cross-rate between sterling and dollar in the Italian market (in practice excluding sterling from the free-currency group), on the one hand brought Italian laws into line with IMF policies, on the other hand it caused a substantial depreciation of the lira in relation to sterling, transforming the deficit in Italy's balance of payments with the sterling area into a surplus⁹².

The possibility of being able to count on sufficient import flows afforded by the ERP through its provision of "direct unconditional aid", together with a general improvement in the economy, enabled Italy to make considerable progress towards relaxing controls. For

⁹⁰ Although it was undoubtedly useful to promote intra-European trade through the link with ERP (even before the October Agreement, the American authorities had agreed to so-called off-shore purchases in Europe, by which dollars allocated by the Plan were to be used to purchase goods outside the USA and specifically for purchases in Western Europe) and through the involvement of United Kingdom and the Sterling Area, the Agreement (apart from the unreliability of the method used for estimating the figures on which it was based) did not produce an incisive effect on the diverging trends of the member countries, the divergencies being based also on differences in the economic policies pursued and on the relative consequences in terms of intra-European imbalances. On this point and particularly on the differences between the "Italian model", which relied greatly on imports for satisfying the country's basic needs (imports to be covered by increasing the export of high-quality agricultural products and finished goods, especially textiles, mechanical goods and craftwork) and that of other countries, above all France and United Kingdom, cf. *BI Report*, 1949, pp.12-3 and 21.

⁹¹ The sterling exchange rate was based on a parity of 4.03 dollars to the point.

⁹² As far as British currency was concerned, the agreement enabled Italy to leave the group of countries subject to bilateral agreements and join the group with 'transferable accounts'. Sterling balances were characterized by various levels of transferability according to the group to which the holder country belonged. While 'bilateral account' sterling could only be used for purchases within the Sterling Area, operators in a country with a "transferable account" could, for example, buy goods in the Sterling Area and sell them to traders in the Dollar Area. On this point, cf., *Banca dei Regolamenti Internazionali, Diciannovesima relazione annuale 1 aprile 1948-31 marzo 1949*, Basile, 13 June 1949, pp 127-32.

example, with regard to foreign private investments, the obligation to obtain ministerial authorization for purchasing real estate and commercial undertakings or selling company shares and quotas of commercial enterprises was lifted⁹³; for imports from free-currency countries the presentation of a permit issued by the Italian Foreign Exchange Office replaced the previous customs' procedure which required import licences⁹⁴. To comply with ERP import regulations⁹⁵, the amount of goods which could be imported with the IFEO permit was reduced considerably for the same countries⁹⁶.

The same liberalizing tendency was a feature of Italian international economic policy in 1949. As an influential official source declared, this was a year of "disputes" in trade relations and of "major monetary upsets"⁹⁷, with the slowing down of the American economy (USA imports fell by 20% in the first nine months) and its repercussions on European countries, the worsening of the monetary situation in many countries (particularly those in the sterling area), the consequent wave of devaluations decided in August (on 18 September the sterling was devalued by 30.5% with respect to the dollar, while differentiated devaluations of many other currencies followed, representing about two thirds of world trade), and lastly the widespread adoption of restrictive measures in economic policy. For Italy, which emerged from the monetary upheaval with an 8.7% devaluation of the lira, 1949 was a year of recovery in production and of a further decrease in the trade deficit, due primarily to an increase in exports which doubled in quantity

⁹³ D.Lg. 2.3.1948, n.211.

⁹⁴ D.M. 5.3.1948: Table B drawn up by D.M.13.4.1946 was abolished.

⁹⁵ D.M. 9.7.1948: Table A (D.M.13.4.1946) was shortened.

⁹⁶ Generally speaking, implementation of the ERP required currency adjustments. With regard to clearing agreements, there was a general increase in quotas, with an increase in the share enjoyed by private operators. Moreover, action was taken to modify the effects resulting from the overestimation of some currencies following the adjustment of clearing rates to dollar rates in 1947. In some cases the very principles of the agreement were temporarily put aside, with "backward" movements from general compensation to reciprocal agreements and "forward" movements into the opposite direction.

⁹⁷ Banca dei Regolamenti Internazionali. *Ventesima relazione annuale 1 aprile 1949-31 marzo 1950*, Basle, 12 June 1950, pp.111 and 145.

in the space of two years⁹⁸. Nonetheless, such complex developments coincided with the pursuit of the objective to liberalize international trade, promoted by international organizations and by the OEEC⁹⁹ and Italy set out to amend its own laws accordingly: following various OEEC resolutions issued in August and November 1949, Italy firstly allowed the imports of over a hundred OEEC commodities (mostly raw materials representing around 45% of imports from OEEC countries) free of quantitative restrictions and straight "at customs"¹⁰⁰. Immediately afterwards¹⁰¹ the list of goods not subject to quantitative restrictions was extended considerably, including finished products¹⁰².

• Clearing agreements (whose exchange rates were increasingly brought into line with the dollar rate¹⁰³) allowed for increasing flexibility in import arrangements and related currency regulations were "relaxed", mainly through the system of reciprocal credit. In more general terms, foreign exchange operation procedures were greatly simplified¹⁰⁴.

⁹⁸ Industrial production rose for the first time to beyond the pre-war level (the related index, with a base of 1938=100 showed a rate of 104), as did GNP at market prices (again with a base of 1938=100, the index showed a rate of 101 compared to 93 in 1948). The trade deficit narrowed to 222.5 billion lire.

⁹⁹ For a concise account cf. A. Nicoddi, 'Cronache sulla liberazione dei commerci' in *Critica economica*, 1950, n.2, pp.83-8. On Italy's role in international negotiations regarding the issue, and especially on Ezio Vanoni's role see M. Ferrari Aggradi, *Ezio Vanoni. Vita, pensiero, azione*, Edizioni 5 Lune, Rome, 1956, pp.269-91.

¹⁰⁰ D.M. 21.9.1949.

¹⁰¹ D.M. 21.12.1949.

¹⁰² 52.6% of agricultural and food products were liberalized, 76.7% of raw materials and 11.1% of finished goods; in all 54.1% of private imports. In addition Italy intended to further liberalize the import of finished goods after the new customs tariff had come into force.

¹⁰³ Consequently, with regard to foreign currency, "... the system which links the prices of the various currencies to the daily market course of the dollar according to the currencies' parity with the dollar affects all our present trade - except for transactions settled on the reciprocity basis - and thereby gives rise to an aligned exchange system; thus when the price of a commodity has been fixed, the earnings or expenditure in lire will depend on the lira's arbitrage parity with the dollar." (BI Report, 1950, p.140).

¹⁰⁴ According to D.M. 5.3.1949, private compensations, previously subject to ministerial licence, were to be subject to the approval of the Italian Foreign Exchange Office, which, following D.M. 11.4.1949, was authorized to reorganize its functions (the same rule also envisaged an increase in the powers of the agent banks and of the customs offices).

Parallel to (and naturally linked with) the goal of commercial liberalization was the aim pursued by the OEEC in the sector of European payments to change the criterion of strict bilateralism regarding the use of drawing rights established by the 1948 agreement.

The new agreement in November 1949 (hampered by the effects of the Autumn devaluations on the actual balance of payments imbalances which naturally diverged from the estimated values on which the attribution of rights continued to be based) provided for their partial multilateralization: 25% of drawing rights attributed were to be used to cover a member country's deficit (thus becoming transferable) *vis-à-vis* another of the member countries, and not necessarily the country granting the rights¹⁰⁵.

With regard to Italy's internal policy, the trend towards relaxing monetary controls was evident in various measures like the unblocking of foreign accounts held in lire¹⁰⁶, which could now be passed over to banks in the country where the account holder resided and used by them in favour of their own clients; previously such accounts could only be used by the account holder.

The year 1950 is an appropriate point at which to conclude this paper since it was a real turning point as far as Italy's post-war international economic policy is concerned, with the issue of the new customs' tariff¹⁰⁷. This was more or less based on the system of *ad valorem* duties which had recently been introduced in many other countries, as well as on a much more detailed classification of import items. It replaced the existing regulations based on a combination of "specific" duties imposed by the 1921 tariff, the real

¹⁰⁵ 'Conditional' aid was granted to the country acting as the actual counterpart in the use of the right, thereby introducing an element of uncertainty in the distribution of ERP aid.

¹⁰⁶ Italian Foreign Exchange Office Provision 30.6.1949.

¹⁰⁷ DPR 7.7.1950, n.442 For a critical comment on the conclusions of the Parliamentary Committee for the issuing of the customs tariff, cf. A. Pesenti, 'Sulla tariffa doganale', *Critica economica*, 1950, n.3, pp.25-45 and Id., 'I riflessi nell'economia italiana della nuova tariffa doganale', *ibid.*, pp.46-61 (the two essays reproduce the Committee's minority report).

value of which had been drastically cut by inflation, and by a licence duty¹⁰⁸. The new and much higher general tariff which was immediately tempered by the issue of a "transitional" tariff valid for one year and by the application of tariff reductions decided by the meeting held at Annecy¹⁰⁹ the previous year, (organized by the General Agreement on Tariffs and Trade), of which Italy became a member at the end of April 1950, revived the more traditional method of indirect foreign trade regulation, just when the system of direct controls was being dismantled.

Italy promptly responded to the OEEC directives on liberalization (or rather anticipated them in the face of a worsening trade deficit¹¹⁰) with at least two important measures issued in July and September 1950¹¹¹. Yet while the liberalizing trend continued, in the second half of 1950 extensive export controls were introduced in Italy as elsewhere¹¹² in order to guarantee a sufficient volume of goods

¹⁰⁸ This duty (corresponding to 10% of the value of imports) which was levied on all imports except for a few staple foodstuffs and raw materials and which had primarily a revenue-raising function, was abolished by L.15.6.1950 n.330. It was replaced by a duty fixed at 0.50% of the value of imports, which was paid into the Inland Revenue and used to finance administrative services.

¹⁰⁹ The possibility of lowering the tariff (ratified by DPR 8.7.1950; cf also DPR 30.7.1950 and DPR 16.11.1950 n.919) had already been envisaged by the same law enacted under delegated power (L.24.12.1949 n.993). The Annecy Agreement had been stipulated on 10.10.1949 and was to come into force on 30.5.1950. At Annecy, however, adjustments to the duties fixed by the tariff had already been made. A circular issued by the Finance Ministry dated 10.7.1950, n.2174, stipulated that the duties reduced independently were to be extended to all countries; the same was to apply to the duties agreed upon at Annecy, except in cases where there was no reciprocity.

¹¹⁰ The trade deficit rose from 222 billion lire in 1949 to 151 billion lire in 1950; the export-import ratio went up from 74% to 83%.

¹¹¹ D.M. 15.7.1950 (in concomitance with the application of the new customs tariff) increased the percentage of liberalized imports to 54.4% for agricultural and food products, 80.9% for raw materials and 47.7% for finished goods. D.M. 20.9.1950 (in concomitance with the application of the new European monetary agreement which instituted the European Payments Union) further increased the proportion of such imports to 73.1%, 81.9% and 66.2% respectively, liberalizing 75.6% of private imports from OEEC countries. Various ministerial circulars (23.4.1950, 29.1.1951 and 8.2.1951) extended the liberalization measures to some imports from non-OEEC countries.

¹¹² For a concise description of the system of trade-flow regulation up to June 1950 cf. BI Report, 1951, pp.181-2. Cf. *ibid.*, p.184 for the 'Export Table' issued in February 1951 and containing the list of exports subject to licence.

(especially raw materials) needed to meet the supply problems generated by the outbreak of the Korean War. Thus, while in March exports to free-currency countries had been encouraged by the law making all goods exportable through the "straight into customs" procedure (with the exception of a limited number of products subject to licence), in the middle of August a wide range of products (around 25% of Italian exports) were placed under the licensing regime, with specific measures being introduced to encourage the import of certain commodities.

Although it was hampered at the beginning by tensions in international relations, the creation of the European Payments Union (EPU) on the 19 September 1950 was the most important structural innovation in the field of European payments¹¹³ and had a major effect on the OEEC's trade liberalization policy. Basically, the EPU, which began to function using a fund in ERP dollars, introduced a system for the multilateral settlement of balances regarding current intra-European payments with automatic adjustment incentives and with the power to influence the economic policies adopted by member countries. The generalization of the principle of transferability, applied to currencies received in payment for goods and services, removed the constraints of bilateralism, enabling each country to settle its own debts towards any of the other countries using credit purchased in any currency belonging to the group and to control its own overall net position (thus the *balance* and not the *balances* of payments) on the basis of the periodical multilateral compensations allowed by the agreement. The maximum net position, both as a debtor (that is, the maximum amount of credit obtainable from the Union) and as a creditor (that is the maximum credit level that each country was obliged to grant through the Union) was defined by the sum payed by each country into the Union, corresponding to 15% of its volume of trade with the other

¹¹³ At the conclusion of the EPU Agreement the phase of OEEC trade liberalization, which should have brought the quota of commercial imports in the private sector exempt from quantitative restrictions to 60%, had in fact been blocked.

countries in 1949. The adjustment incentive was in turn determined by the amount in gold or dollars a country intended to pay for the settlement of quotas of the position itself (which were higher in the case of debtors)¹¹⁴.

Italy, which ran in 1950 an unexpected sterling deficit due to the growing demand for high-priced raw materials, was therefore able to feel immediately the "real" benefits of the new monetary agreement - no trade restrictions and/or no significant dollar outlay - which consisted mainly in relaxing the constraints imposed on trade by bilateralism. In more general terms, as far as the development of exports was concerned, by widening the area in which bilateral credit balances could be used, the EPU enabled Italy to increase its volume of exports to partners which in a regime of bilateralism would not have been very advantageous since the lack of compensation to imports would have caused the freezing of clearing accounts.

In conclusion, alongside the revival of more traditional methods for regulating trade flows (replacing direct controls which were increasingly disappearing) and the prompt exploitation of the benefits of European monetary inter-exchangeability with a view to trade expansion and differentiation¹¹⁵, 1950 did not bring major changes in Italy's monetary legislation. Rather, it brought the confirmation of trends which had been evolving in the country for some time: namely the replacement of settlements based on reciprocity with those based on general compensation¹¹⁶ and the signing of new agreements on the basis of exchange rates fixed through the dollar, the decentralization of payments through banks¹¹⁷ (encouraged by EPU mechanisms) and lastly the further simplification of the export

¹¹⁴ Initial fictitious balances (with functions similar to multilateral drawing rights and to conditional aid) were to be created to take account of structural (debtor and creditor) positions; for Italy the initial balance was nil. Italy's share was fixed at 205 million account units, the same as the dollar.

¹¹⁵ In 1950 the geographical distribution of Italy's foreign trade got even closer to pre-war patterns; cf. BI Report, 1951, pp.164-5.

¹¹⁶ As in the case of Switzerland, Holland and Denmark.

¹¹⁷ Already in force as far as settlements in French and Belgian francs were concerned, the system of decentralized payments was extended to Germany, Denmark, Switzerland, Sweden and Norway.

currencies market¹¹⁸ - from 1 January 1951 only dollars were to be negotiated on the market - which was necessary for obtaining the goal of the exchange rate uniformity.

¹¹⁸ Following the new payments agreement with Switzerland in November 1950, on 1 January 1951 the export Swiss franc was no longer quoted and currency accounts in that currency were closed.

