

Italy and the International Monetary Fund. From Multiple Exchange-Rate System to Convertibility¹

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On 27 March 1947 Italy acquired membership of the International Monetary Fund. This date should be looked at as the link between the end of a diplomatic negotiation, which had started as early as the Bonomi government in 1944, and the beginning of an economic dispute, which lasted for more than ten years, until Italy managed to fix a par value with the dollar for the Italian lira and declare convertibility for its currency in 1961. It was only then that Italy fully complied with the requirements demanded by the Bretton Woods regime, and in particular with Article VIII of the Statute of the Fund. This process involved the so-called "Einaudi line", the internationalization of the Italian economy, the constitution of the European Payments Union, and, eventually, the birth of the European Community in 1957. The Appendix includes some unpublished documents taken from the Archives of the IMF, which show how consultations took place between the Fund and the Italian authorities during the nineteen fifties.

1. Introduction

"Two important dates to which historians have paid inadequate attention are 2 October 1946, when Italy was admitted to the Bretton Woods institutions, and 27 March 1947, when it became a member of the IMF and the IBRD"². To Guido Carli these two dates meant basically

¹ On the sixtieth anniversary of Italy's admittance to the International Monetary Fund in 1947. Abbreviations: AIMF = Archives of the International Monetary Fund; ABRD = Archives of the International Bank for Reconstruction and Development; NA = National Archives; ASBI = Archivio Storico Banca d'Italia; ACS = Archivio Centrale dello Stato; CF = Central Files; FO = Foreign Office; BT = Board of Trade.

² G. Carli, with P. Peluffo, *Cinquant'anni di vita italiana*, (Laterza: Roma-Bari 1993), p. 62. In his preface Guido Carli calls the Bretton Woods agreements a decisive moment whose consequences tended to "overthrow the arrangements of Italian society" (p. VIII).

the internationalisation of the Italian economy and the integration of its currency into a renewed international monetary regime after the Second World War and the fascist autarky. "The Bretton Woods meeting was the first conference to establish a legal framework for ensuring cooperation between states, requiring commitments to limit their sovereignty in order to observe specified rules in economic intercourse and to facilitate the expansion and balanced growth of international trade"³.

In its initial shape the IMF provided for an adjustable parity system, reconciling the stability of the exchange rate with some sort of flexibility. While the IBRD – an international institution devoted to long-term investments for post-war reconstruction and for the development of those areas still lagging behind – started to operate only after 1952⁴, on 1 March 1947 as many as thirty countries had already joined the IMF and Italy's membership would soon follow. The story of Italy's admittance to the Fund is a complex one, both from a diplomatic and an economic point of view: Italy did not always comply with the rules shared by member states but eventually the intercourse with the Fund prompted a virtuous cycle.

A different version of this article, which is part of a larger work in progress, was published in 2000⁵, but since then it has received support from both primary and published sources. Besides the sources of the Historical Archives of the Bank of Italy, which have been the subject of a recent work⁶, this article draws primarily on the sources of the Archives of the International Monetary Fund, the Archives of the International Bank for Reconstruction and Development, the National Archives in London and the State Central Archive in Rome.

³ H. James, *International Monetary Cooperation since Bretton Woods*, (International Monetary Fund and Oxford University Press: Washington D.C. and New York-Oxford, 1996), p. 57.

⁴ F. Fauri, *L'integrazione economica europea, 1947-2006*, (Il Mulino: Bologna, 2006), p. 28.

⁵ G. Di Taranto, 'Italy and the International Monetary Fund. The beginning', *Review of Economic Conditions in Italy*, 2-3, 2000, pp. 323-374.

⁶ J.C. Martínez Oliva, "L'adesione dell'Italia agli accordi di Bretton Woods", in F. Cotula (ed.), *Stabilità e sviluppo negli anni Cinquanta. I. L'Italia nel contesto internazionale*, Collana Storica della Banca d'Italia, (Laterza: Roma-Bari, 2000), pp. 75-109.

2. The Italian school of classical economics

The loans granted by the U.S. to Italy since June 1945 to facilitate imports of raw materials and primary goods and the aid from the United Nations Relief and Rehabilitation Agency (UNRRA), which paved the way for Italy's reconstruction well before the Marshall Plan⁷, prompted a major debate on the political economy of reconstruction.

Within the broad consensus in Italy for economic liberalism, economic internationalism and membership of the Western bloc, two approaches to reconstruction vied with each other. One was based on achieving balance-of-payments equilibrium, rebuilding the gold reserves and ensuring monetary stability. The other gave priority to the restoration of production capacity, technological modernisation and employment growth, taking into account that Italy had a less efficient capital-labour ratio than the other Western countries, particularly Germany and Britain⁸.

These different strategies implied differences in the way indispensable foreign loans would be put to work. The first approach, which was the one eventually taken, proposed that the inflow of foreign capital be used to make good the balance-of-payments deficit and stabilise the lira, whose external value was being steadily eroded by large recurring deficits. Consolidation of the lira would pave the way to faster industrial recovery

⁷ P. Battilani, F. Fauri, "Piano Marshall e liberalizzazione degli scambi: l'impatto della crescita industriale delle regioni italiane", in G.F. Rusconi, H. Woller (eds), *Italia e Germania, 1945-2000. La costruzione dell'Europa*, (Il Mulino: Bologna 2005), p. 375.

⁸ On the continuity of the approach *à la* Walras and *à la* Pareto to the system of general equilibrium and on the roots of the Marshallian tradition in Italy, see G. Garofalo, A. Graziani (eds), *La formazione degli economisti in Italia (1958-1975)*, (Il Mulino: Bologna 2004). L. De Rosa, *Italian Economic Development since the Second World War: a reconstruction based on the Review of Economic Conditions in Italy*, Review of Economic Conditions in Italy, monographic issue, 2, July-December 1997. On the decision in favour of economic liberalism and internationalism, see S. Battilossi, *L'Italia nel sistema economico internazionale. Il management dell'integrazione. Finanza, industria e istituzioni 1945-1955* (Insmli, Franco Angeli: Milan 1996); M.L. Cavalcanti, *La politica commerciale italiana 1945-1952. Uomini e fatti*, (Edizioni Scientifiche Italiane: Naples 1984); P. Barucci, *Ricostruzione, Pianificazione, Mezzogiorno. La politica economica in Italia dal 1943 al 1955*, (Il Mulino: Bologna 1978). On the political aspects of the debate, see C. Danco, *La politica economica della ricostruzione 1945-1949*, (Einaudi: Turin 1975), pp. 100-26.

and the creation of resources with which to maintain the currency's parity. Italy needed raw materials more than it did accelerated growth of the industrial sector, which had suffered only moderate wartime damage. No more than 10 percent of industrial capacity had been lost, and in some industries, such as engineering, capacity was fully one third above its pre-war level⁹.

By contrast, the strategy that stressed strengthening the nation's industrial apparatus and increasing employment looked to the precedent of other European countries lacking in natural resources that had achieved rapid growth through technological progress;¹⁰ higher competitiveness would lead to an improvement in the external accounts and stabilise the currency. This was an essentially Keynesian approach, based on employment growth through higher capacity utilisation and accelerated investment, along the lines suggested in a critical vein by the Economic Cooperation Administration's Country Study and pursued by the European Recovery Programme with its shipments to Italy first of consumer goods and raw materials and then of machinery.¹¹

In the end, however, economic policy bowed to the diagnosis that in a situation of geographic dualism unemployment stemmed from an insufficient capital stock and wage misalignment rather than from a shortage of demand. Consequently, "despite the attractions and temptations of Keynesian deficit spending", the "Einaudi line" prevailed on the grounds that "monetary stability was essential for adequate formation of saving and rapid, lasting development, with the consequent need for a balanced budget".¹²

⁹ P. Battilani, F. Fauri, *Piano Marshall, op. cit.*, p. 377; V. Zamagni, "Gli oggetti macroeconomica degli effetti della guerra", in V. Zamagni (ed.), *Come perdere la guerra e vincere la pace*, (Il Mulino: Bologna 1997), p. 37.

¹⁰ L. De Rosa, "Italian Economic Development", pp. 194-195.

¹¹ The European Recovery Programme's Country Study, presented to Congress in February 1949 by Paul G. Hoffman, head of the Economic Cooperation Administration, was a sharply worded US criticism of Italy's monetarist economic policy. The ERP was not always able to reconcile its investment plans with the risks of inflation, which were far greater in Italy than in other countries. See A.O. Hirschman, "Report on Italy: Recovery or Stagnation", December 1948, in C. Esposito, "Il Piano Marshall. Sconfitte e successi dell'amministrazione Truman in Italia", *Studi Storici*, vol. 37, 1, January-March 1996, p. 91.

¹² M. Arcelli (ed.), *Storia, economia e società in Italia 1947-1997*, (Laterza: Roma-Bari 1997), "Introduzione", p. XVI.

Keynesian measures were instead implemented in Great Britain, France, the Netherlands, Norway and other countries with a "higher degree of sovereignty" vis-à-vis the United States and more bargaining room than Italy, where deficit spending would not only have stoked inflation but might also have turned into an additional instrument of pressure.¹³

The monetarist "turn" of 1947 that had matured within the "Italian school of classical economics", whose ranks included Costantino Bresciani Turrone, Luigi Einaudi, Epicarmo Corbino and Gustavo Del Vecchio,¹⁴ needs to be re-examined today in the light of the more recent studies of post-war reconstruction in Europe.¹⁵ While the orthodox interpretation is right to point up the deflationary effects of the turn towards monetarism, it overlooks the greater scope for autonomy that monetary stabilisation offered government economic policy from as early as the turn of the fifties.¹⁶ It is true that between the end of 1947 and the outbreak of the Korean War the climate in Italy was one of "substantial depression" and that the adjustment measures were costly in terms of income and employment. But one must ask what the consequences would have been without the monetarist turn or, alternatively, with the exchange of currency (never implemented) and the extraordinary tax on wealth (approved in July 1947), both of which were advocated by the Left¹⁷.

In Italy, the growing budget deficit and public debt had fuelled a

¹³ *Ibid.*, p. 139 and V. Zamagni, "Una scommessa sul futuro: l'industria italiana nella ricostruzione (1945-1952)", in E. Di Nolfo, R.H. Rainero, B. Vigezzi (eds), *L'Italia e la politica di potenza in Europa (1945-1950)*, (Marzorati: Milan 1990), pp. 493 ff.

¹⁴ See A.M. Fusco, "Gli studi di economia in Italia: momenti di riflessione teorica (1946-1996)", in M. Arcelli (ed.), *Storia, economia e società, op. cit.*, pp. 71-125.

¹⁵ A.S. Milward, *The Reconstruction of Western Europe 1945-1951*, (Methuen: London 1984); see also M. De Cecco's interesting observations on these three works in "Le frontiere della sovranità nazionale secondo Milward", *Studi Storici*, January-March 1996, pp. 354-362.

¹⁶ See C. Spagnolo, "La polemica sul "Country Study": il fondo lire e la dimensione internazionale del Piano Marshall", *Studi Storici*, gennaio-marzo, 1996, especially pp. 95 ff. for a recent review of the debate between critics of the Einaudi line (such as M. De Cecco, *Saggi di economia monetaria*, (Giuffrè: Milan 1968), pp. 35-90; *idem*, "Le frontiere della sovranità nazionale secondo Milward", *op. cit.*, pp. 354-62; C. Daneo, *La politica economica della ricostruzione*) and its defenders, such as P. Baffi, "Memoria sull'azione Einaudi, 1945-1948", *Studi sulla moneta*, (Giuffrè: Milan 1965), pp. 177-93, now in *Testimonianze e ricordi*, (Libri Scheiwiller: Milan 1990), pp. 59-78 and F. Masera, *L'Italia e l'economia internazionale*, (Utet: Turin 1979).

¹⁷ See G. Di Taranto, *Italy and the International Monetary Fund, op. cit.*, pp. 327-329.

continual increase in the currency in circulation, engulfed by the issue of Am-lire by the Allied Military Government. Inflation, kept in check until late in the war by what amounted to forced sales of government bonds by the Fascist regime, doubled between 1938 and 1943, increased tenfold the following year and, after a pause between the second half of 1945 and May 1946, spiralled upwards until the summer of 1947. The inflationary surge was partly due to the fragmentation of the economy into a congeries of markets in which the band of curves, representing the index of goods prices, fanned out owing to the dispersion of prices.

The growing balance-of-payments deficit trapped Italy in a vicious circle: in order to pay for imports, it was necessary to increase exports, but to increase production and export capacity it was necessary to import machinery and raw materials.¹⁶ The decision to use international aid to strengthen the gold reserves led to the deficit being made good with funds obtained from or through special organisations, such as the United Nations Relief and Rehabilitation Administration. The approach would not change under Alcide De Gasperi's all-Christian Democratic government, which implemented the deflation of 1947, or subsequent administrations, which used the ERP for the same aims.

The most recent historiography has demonstrated that the political significance of US aid to Europe much outweighed its economic significance. Assistance was principally designed to block the advance of the Left in countries where it had prospects of success, such as Italy, and to check the international spread of Communism and Soviet influence. American aid financed the plans and objectives of the European countries, as Alan Milward has stressed, but the priorities were set by the Europeans. As it were, political success depended on the failure of America's economic strategy. Not only did the latter seem very weak, but Europe recovered, despite the sharp recession of 1947, thanks to its cultural and human resources and its own decisions. This outcome prevailed regardless of whether the aid was used for specific planning policies, such as the Beveridge Plan or the Monnet Plan, which borrowed a leaf from the measures of the New Deal, or for

¹⁶ A. Graziani, *Lo sviluppo dell'economia italiana. Dalla ricostruzione alla moneta europea*, (Bollati Boringhieri: Torino 2001), p. 19; G. Di Taranto, *Italy and the International Monetary Fund*, *op. cit.*

monetary stabilisation, as in Italy, where "the transition to a situation tending towards a shortage of liquidity, the formation of a government with a resolutely anti-inflationary programme and the effects of American aid explain the extraordinary efficacy of the stabilisation programme launched in September 1947".¹⁹ To conclude this overview, one should not forget that the studies of J.B. De Long, B. Eichengreen and J. Killick confirmed Milward's interpretation, showing that between 1947 and 1948 the U.S. were more concerned about an inflationist rather than a deflationist trend and that, in presence of a high domestic demand, about one third of the goods sent to Europe came from foreign countries²⁰.

3. Italy's application for membership

Carli's observation quoted at the beginning stands in sharp contrast with the consensus view that firmly but mechanically links Italian participation in the IMF to the deflationary programme of the fourth De Gasperi government. Some historians of post-war reconstruction regard the deflationary measures as a consequence: "monetary stabilisation enabled Italy to apply the Fund's prescriptions, stabilising the exchange rate. This allowed Italy to begin to join the European economy, a process which, from a wider perspective, constituted the economic and political substance of the entire operation".²¹ Others regard deflation as a premise: Einaudi thought he needed to send a strong signal upon Italy's admission to the Fund and on the eve of reopening of foreign trade,²² and it was part of the shift in economic management that took shape in January 1947 with De Gasperi's visit to the United States, a shift announced in advance by the grant of a substantial loan and by "the admission of Italy (first among the defeated nations) to the International Monetary Fund

¹⁹ A. Fazio, "Introduction", in F. Cotula, C.O. Gelsomino, A. Gigliobianco (eds), *Stabilità e sviluppo dell'economia italiana 1946-1960. I. Documenti e discorsi*, Collana storica della Banca d'Italia, (Laterza: Roma-Bari 1997), p. 12.

²⁰ For a review on this issue, see F. Fauri, *L'integrazione economica europea, op. cit.*, pp. 40-42.

²¹ A. Graziani, *Lo sviluppo dell'economia italiana*, p. 43.

²² V. Castronovo, *Storia economica d'Italia. Dall'Ottocento ai giorni nostri*, (Einaudi: Turin 1995), p. 385.

and the World Bank, which also was finalized in Washington during the Prime Minister's visit".²³ The interesting documentation published in several volumes of the Bank of Italy's historical series shows that during De Gasperi's visit – the delegation accompanying him included Carli, Pietro Campilli and Donato Menichella – the IMF was a subject of discussion only insofar as Menichella endeavoured to acquire the gold necessary for Italian entry at \$35 an ounce instead of \$52 or \$53, the prevailing price on the US domestic market. The correspondence between Washington and the Foreign Office in London concerning De Gasperi's visit shows that obtaining loans was his primary economic aim.²⁴

Others have viewed Italy's accession to the IMF as a harbinger of the restrictive measures adopted in 1947, a tightening whose signs could be glimpsed as early as January 1946, when the reference level for compulsory reserves with the Bank of Italy was raised from 20 to 30 times banks' equity, and in the spring of the same year, when the responses to a questionnaire from the Economic Committee of the Constituent Assembly indicated that economists and bankers wanted to see the reserve requirement raised. In this setting, the "measures of 1947 also satisfied the demand for monetary stability being put forward, first of all, by the International Monetary Fund, which Italy had joined just months earlier".²⁵

According to this interpretation, it is important that Einaudi, in an October 1947 speech in Parliament defending the stabilisation measures, emphasised the suggestions and encouragement he had received from the Fund's managing director.²⁶

Finally, stimulating but ideologically overburdened studies have identified the "triple aim of balance-of-payments equilibrium, defence of the foreign exchange reserves and price stability" as factors that on more than one occasion subjugated Italy's political development to what was

²³ *Ibid.*

²⁴ F. Cotula, C.O. Gelsomino and A. Gigliobianco (eds.), *Donato Menichella. Stabilità e sviluppo dell'economia italiana 1946-1960. I. Documenti e discorsi*, Collana storica della Banca d'Italia, (Laterza: Roma-Bari 1997), pp. 214-15. For the documentation indicated, PRO, BT, 24/25/RG 172/200, 69562.

²⁵ F.S. Spinelli and M. Fratianni, *Storia monetaria d'Italia. Lira e politica monetaria dell'Unità all'Unione Europea*, (E'AS: Milano 2001), pp. 372.

²⁶ *Ibid.*, p. 372.

held to be a binding external constraint: in the twenties the gold constraint, "like its post-war surrogates, the Commandments of Bretton Woods [and] the rules of 'good conduct' of the International Monetary Fund".²⁷

Nevertheless, the evidence, including the documents in the IMF Archives in Washington and the National Archives in London, seems to show that Italy's entry into the Bretton Woods institutions is explained by the dominance of the Italian school of classical economics, by the altered international situation and its consequences, and by Italy's desire, after its isolation under Fascism, to join the circuit of international trade and thus take an essential step towards an open economy²⁸. Even so, until the end of 1945 very few American political leaders were willing to support a positive response to the British and West European calls for

²⁷ S. Battilossi, *L'Italia nel sistema economico internazionale*, pp. 39-40. Battilossi considers the fluctuation band of the European Monetary System a more recent expression of this constraint.

²⁸ It is significant that as early as 26 June 1944 the Undersecretary of State for Foreign Affairs, Visconti Venosta, informed Ellery W. Stone, head of the Allied Control Commission, that the Italian government wanted to send an expert to participate in the Monetary and Financial Conference of the United Nations that was about to open in Bretton Woods. The request was motivated by the issues on the agenda, which were "of decisive importance for all countries, including Italy". Given Italy's particular situation in the international arena, Italian participation was warranted by the fact that the issues were chiefly technical and economic and only indirectly political. Bonomi had discussed the matter with Alexander Kirk, the American ambassador to Italy, and when Stone declared that the United States attached great importance to Italian participation but that "for various reasons" the invitation could not be extended, Bonomi replied that the exclusion was another pointless humiliation for Italy, and that this persistence of distrust was unjustified in light of the intended revival of international cooperation. Among the urgent requests submitted to the Allied Control Commission on 22 July 1944, the day the Bretton Woods conference ended, Bonomi asked that Italy be informed of the outcome of the conference and he also suggested that Italian financial experts might visit the United States and Britain for *technical* discussions. Italy's difficulties stemmed from its position in the international arena and in particular from the change in the economic balance of power between Britain and the United States. Politically, the Anglo-Americans continued to consider Italy a hostile nation even after the armistice of 8 September 1943. Although the armistice gave Germany even better grounds for so viewing it, creating a situation unlike that of any other country involved in the Second World War. In the economic realm, without rehearsing the well-known dispute between White and Keynes over the Bretton Woods agreements and America's supremacy as reflected in the formation of the IMF and the World Bank, it is important to stress that the British, with their imperial strength weakening, hoped to incorporate Italy into their zone of influence, while for the Americans the first country to be liberated in western Europe was an acid test of their organising powers. See V. Castronovo, *Storia economica d'Italia. Dall'Ottocento ai nostri giorni*, (Einaudi: Torino 2006).

assistance. On the contrary, Truman, "reflecting the isolationist trends of Congress",²⁹ authorised terminating Lend-Lease and closing down the Foreign Economic Administration, which had run that programme.

In addition, the accelerated depletion of UNRRA's resources further dampened expectations of additional US aid. Although the situation changed over the next two years with the growing fear of Soviet expansionism and the spread of Communism, until De Gasperi's visit to the United States, Britain remained Italy's preferred interlocutor for questions including Italian membership of the IMF and acted as mediator between Italy and the US State Department³⁰.

4. The economic debate on Italian membership

Italy's application to join the Fund and the World Bank had been presented in February 1946 to the US Secretary of State, supported by the argument that control of public spending and the stock of currency in circulation, together with the new exchange rate, would cause domestic prices to move down towards the prevailing international levels.³¹ The hope was that Italian participation in the Bretton Woods institutions would foster economic stabilisation, although in fact a relapse was imminent: after pausing until May 1946, inflation would soar until the summer of 1947.

The formal simplicity of the Italian application was the result of careful theoretical reflection within the Committee on the Problems of Financial Reorganisation, a body established by decree of Treasury Minister Marcello Soleri on 25 September 1944³². From its very first session, the sixth

²⁹ J. McGlade, "Lo zio Sam ingegnere industriale. Il programma americano per la produttività e la ripresa economica dell'Europa occidentale", *Studi storici*, ..., p. 13.

³⁰ See G. Di Taranto, *Italy and the International Monetary Fund*, *op. cit.*, pp. 334-335.

³¹ AIME, CF, Application for membership from Italy. The application was submitted by the Italian ambassador to Washington, Alberto Tarchiani, on 14 February 1946.

³² Six subcommittees studied: the technical problems of issuing money, ordinary budget adjustment and the possibility of an extraordinary tax on wealth, the possibility of improving the treasury situation by recourse to loans and use of Am-lire for external payments, production policy, price policy and the volume and monetary settlement of international trade. See A. Caracciolo (ed.), *La Banca d'Italia tra l'autarchia e la guerra 1936-1945*, Collana storica della Banca d'Italia - Documenti, (Laterza: Roma-Bari 1992), pp. 514 and 541-45. On the debate about Italy's application to the Fund, see G. Di Taranto, *op. cit.*, pp. 335-341; see also J.C. Martinez Oliva, *op. cit.*, pp. 84-86.

subcommittee, chaired by Raffaele Mattioli, had taken up the question of membership of the Bretton Woods institutions. Although application of the agreements "is not imminent and not even certain", the minutes read, the subcommittee is of the view that, as there was no Italian observer at the conference, it is now necessary to make a precise evaluation of the advantages of the planned system, its costs to Italy and the means that can provide the membership quota, which it is hoped will be suitably high".³³

The studies prepared by the sixth subcommittee voiced the common hope that Italy would regain full standing in the international arena, but they inevitably reflected different theoretical and political persuasions of the authors. Against adherents of the Italian "classical school" of economics who underscored the monetarist aspects, others emphasised the inadequacy of the Bretton Woods arrangements. Not by chance, this lineup paralleled the sides in the debate on reconstruction.

It is worth noting that although Alberto Campolongo's Italian translation of Keynes's *General Theory* did not appear until 1947, Keynes's work was already well known in Italy and had drawn fire from prominent liberal economists.³⁴ These critics included Bresciani Turrone, appointed executive director of the World Bank in 1947 and known for his scholarly and ideological proximity to Einaudi,³⁵ Gustavo Del Vecchio, Amedeo Gambino, a student of Luigi Amoroso's, himself a sharp critic of Keynes,

³³ A. Caracciolo (ed.), *op. cit.*

³⁴ Keynes's work was supposed to have appeared in Italian translation in 1938 in the "Economisti stranieri e italiani" series, initiated by Giuseppe Bottari and edited *de facto* by Celestino Arena (A.M. Fusco, "Gli studi di economia in Italia", pp. 77-78). On Bresciani Turrone's influence on Italian economists, his reputation abroad and his criticisms of Keynesian theory, see M. Talamona, "Costantino Bresciani Turrone: l'opera scientifica e il contributo alla ricostruzione dell'economia italiana", in Institut International d'Histoire de la Banque, *L'opera scientifica*, tome I, pp. 134-53; P. Bini, *Costantino Bresciani Turrone: ciclo, moneta e sviluppo*, (Otium edizioni: Civitanova Marche 1992); also of interest is R. Faucci, "Sul 'Bresciani Turrone' di Piero Bini: un dibattito", *Il pensiero economico italiano*, (1994), no. 1, pp. 153-62.

³⁵ On the origins of the IBRS, see ABRD, Secretary's Memorandum, no. 55 and no. 156; Office Memorandum; Press Release, 23 October 1947. These and other papers also contain useful informations on the IMF. On recent historical studies, see B. Curli, 'Ricostruzione e Sviluppo. La Banca Mondiale e l'economia italiana, 1947-1951', *Archivi e Imprese*, 15 (January-June 1997), pp. 33-71; L. Paganetto, P.L. Scandizzo, *La Banca Mondiale e l'Italia: dalla ricostruzione allo sviluppo*, (Il Mulino: Bologna 2000).

and Giuseppe Ugo Papi and Valentino Dominedò, who sat on the sixth subcommittee alongside the Keynesian Francesco Coppola d'Anna.

In August 1944 Gambino wrote that, since monetary stability was the precondition for national and international economic recovery, the subcommittee had "agreed to examine the monetary problem first and then to turn to the problem of reconstruction". In any event, the commitments and obligations imposed by the Bretton Woods agreements could constitute a constraint for countries whose weak economies gave them "little influence on collective decisions". However, under the gold standard there had been *de facto* constraint, since the restoration of balance-of-payments equilibrium was based on variations in the price level, "excluding whatsoever adjustment via variations in the exchange rates" (and thus in the parities). Price changes also depended on gold production (a further element of instability). In the light of the monetary disorder of the twenties and thirties, with the replacement of the gold standard by the gold exchange standard, Gambino hoped that the Bretton Woods currency arrangements would not require international adjustments to be based solely on variations in the price level, but would also "envisage adequate possibilities for revision of parities, albeit with due caution and within appropriate limits".³⁶ This statement would appear to bring Gambino close to a Keynesian position, but it was firmly adjusted to "quantitativism": "As to the purely technical aspects of the monetary problem, the new order in every case must [leave] margins of elasticity and flexibility, so that the reciprocal adaptation between monetary situation and economic situation is not made excessively onerous".³⁷

For Giuseppe Ugo Papi, membership of the Fund presupposed that the aspirant countries implement or at least launch a "process of returning to equilibrium between production, consumption, prices; wages and taxes". This would facilitate inclusion in the circuit of international trade and make it possible to comply with the obligation, laid down by the Fund's Articles, to specify the gold parity. As far as Italy was concerned, "stabilisation of the

³⁶ ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", A. Gambino, *Problemi della politica monetaria. L'adesione dell'Italia agli accordi di Bretton Woods*, (Rome 5 August 1944), mimeo.

³⁷ *Ibid.*

external purchasing power of the lira" could be achieved only through accelerated recovery of production. Impediments to this were the inelastic organisation of the labour market,³⁸ expectations that recovery might stimulate an excessive rise in prices by mobilising hoarded money and dormant bank deposits, and recourse to deflationary measures. If Italy, nonetheless, had to declare the gold parity to the IMF before stabilising the economy, it would be advisable to set "a rather low metallic content, corresponding at least to the average level of wholesale or retail prices in the country during a considerable span of time preceding the date on which the par value must be declared". For the time being, this was unfeasible on account of the multiplicity of "watertight compartments and purchasing powers of the lira even within the same region".³⁹ Papi's report anticipated events and measures that would mark the initial phase of relationships between the IMF and Italy, a phase that was particularly critical owing to the contrast between Italy's policy of multiple, partly flexible rates and the IMF's prescription of fixed rates under the Bretton Woods agreements.⁴⁰

Valentino Dominedò pursued a similar line of thought, asserting that postponement of the fixing of the lira's parity had to be among the specific requests by Italy to the IMF. According to Dominedò, the moment for specifying a currency's parity could be deferred for several years, depending on the domestic conditions of the individual member state. In the meantime, member states "should be allowed to effect operations pegged to another currency (the dollar), with which a provisional and possibly variable conversion rate is established".⁴¹ If Italy joined the IMF, Dominedò argued, it should in any case invoke Article XIV, which allowed

³⁸ ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", Papi's report, mimeo.

³⁹ *Ibid.*

⁴⁰ For an examination of Italy's foreign exchange policy and the role of the IMF based on the sources found in Italy, see P.F. Asso, A. Biagioli and C. Picozza, "Ordinamento valutario, politica del cambio e gestione delle riserve (1945-1960)", in F. Cotula (ed.), *Stabilità e sviluppo negli anni cinquanta. II. Problemi strutturali e politiche economiche*, Collana storica della Banca d'Italia, (Laterza: Roma-Bari 1998), pp. 64-249; see also P.F. Asso, 'La politica del cambio negli anni della ricostruzione: aspetti internazionali della linea Einaudi', *Il pensiero economico italiano*, V (1997), no. 2., pp. 119-50.

⁴¹ ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", V. Dominedò, *Gli accordi di Bretton Woods e L'Italia*, n.d., mimeo.

member countries whose territory had been occupied by the enemy to introduce or retain exchange controls for the so-called postwar transitional period of five years, and Article XX, Section 4, which exempted the same countries from having to declare monetary par value "during a subsequent period of time" to be determined by the Fund.

It is worth noting that an "Explanatory note on the Bretton Woods agreements", prepared by the Bank of Italy's economic research department in July 1945, remarked that the Fund treated exchange controls "with a realistic and ... even an accommodating spirit", allowing member countries, within the limits of necessity, to maintain the existing limitations for a certain period of time even for payments on current account".⁴² This arrangement had been backed most strongly by Britain, which held that any other solution would be detrimental as long as the British economy was unable to compete with the stronger economies, especially the United States. Like Gambino, Dominedò considered the operation of the Fund likely to reduce "the major, well-known drawbacks of the gold standard" and favoured the absence "of fictitious currencies such as Keynes's *bancor*"⁴³.

Francesco Coppola d'Anna, in a paper dated 23 January 1945, stressed the political over the purely economic importance of Italian membership of the Bretton Woods institutions. Considering the costs and risks involved, participation was an act of faith and courage. It was indispensable to "offer proof of our resolute will to cooperate at the international level, following a period of forced isolation that ill-conceived propaganda had depicted as a voluntary abandonment of our traditional policy guidelines, less receptive than any others ... to the allurements of closed economies". Coppola d'Anna's prevalently ideological slant is epitomized by his view that the Bretton Woods institutions would be significant only if they were framed in a renewal of the mentality with which government leaders and the peoples themselves, "including the labouring masses", "treated and responded to the questions of international relations".⁴⁴ Accordingly,

⁴² ACS, Carte Bertone, 27/1.

⁴³ He also criticized the "Unitas" proposed in the White-Morgenthau plan (ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", V. Dominedò, *Gli accordi, op. cit.*)

⁴⁴ ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", F. Coppola d'Anna, *Gli accordi di Bretton Woods e la posizione dell'Italia*, (Rome 23 January 1945), mimeo.

Coppola d'Anna considered monetary stability only one aspect of the international economic equilibrium; no monetary plan could succeed, he averred, if the balance of payments had no way to move into equilibrium without imposing ultimately unsustainable sacrifices on countries. As an instrument for restoring equilibrium, Coppola d'Anna had in mind the "benefits that can come from the international movement of capital" and the "frequent need to adjust exchange rates", and excluded "recourse to drastic deflationary measures".⁴⁵

These observations were an early indication of the position Coppola d'Anna would take regarding the road to reconstruction and Einaudi's anti-inflationary measures. On those issues we find him among the economists who favoured devaluing the lira before Italy joined the Fund and using Marshall Plan assistance for investment and employment growth rather than primarily for financial and monetary adjustment.

The sixth subcommittee concluded its proceedings with a unanimous vote for Italy's becoming a party to the Bretton Woods agreements. According to the subcommittee, however, this step had to be preceded by diplomatic spadework to obtain sufficient guarantees in the transitional period for fixing the par value of the lira and more coordination between the functions of the IMF and those of the World Bank in granting loans. With regard to Fund quotas, the subcommittee acknowledged the importance of political factors and estimated the Italian quota at \$300 million; inasmuch as it could avail itself of the transitional period provided for by Article III, Section 3/b2, Italy would be able to meet the minimum payment of 10 percent of the net official gold and dollar reserves existing at the date the Fund started operations. For the subsequent gold payments, "it will be necessary to use foreign loans, making sure to assert our claim on Germany for the gold removed from Italy (around \$100 million) and for commercial advances (around \$300 million)".⁴⁶

⁴⁵ *Ibid.* Another interesting paper was drafted by Carlo Gragnani, who a decade later would serve as executive director of the Fund. Gragnani's study dwelt chiefly matters relating to the operation of the institution (ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", C. Gragnani, *Pro e contro del Fondo Monetario Internazionale*, n.d., mimeo).

⁴⁶ ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", Atti commissione Soleri VI Sottocommissione, *Sulla adesione dell'Italia agli accordi di Bretton Woods*. This is a final summary of the proceedings.

It was decided that Italian participation in the Bretton Woods agreement required enactment of an ad hoc law, not merely for legal technicalities but because it was essential that the Constituent Assembly, representing the Italian people, declare its approval of the obligations and rights deriving from membership.⁴⁷ The Italian ambassador in Washington repeatedly urged the Treasury Minister to present such a bill in December 1946, shortly before De Gasperi's visit to the United States, since this would enable the Prime Minister to "take appropriate steps to obtain concrete American backing" for the request for World Bank loans. Revealingly, there is no mention here of the IMF, whose function was rightly considered less critical for the purposes of post-war reconstruction.⁴⁸

The Constituent Assembly approved the bill on 15 March 1947 and the law was promulgated on 23 March. Italy thereby agreed to the procedures and conditions laid down by the Boards of Governors of the Fund and World Bank for membership.⁴⁹

5. A difficult start

Part of the explanation of the lengthiness of the procedure lies in the difficulties the Italian application for membership encountered within the Fund. On the same day that the application was submitted to the Council of Governors, the Governor for Greece asked that the matter be withdrawn for subsequent consideration. Since Italy was a former enemy, its application "should not even have been received" until the peace treaty was signed.⁵⁰ Yugoslavia sided with Greece. It was decided to take up their requests in a subsequent meeting, when a decision would be made, leaving it up to the Executive Board to decide whether to conduct a technical assessment of the question. On 30 August 1946 the Fund's

⁴⁷ ACS, Presidenza del Consiglio dei Ministri, 9-6/91039, 1944-1947.

⁴⁸ ACS, Carte Bertone, 27/1.

⁴⁹ ACS, Presidenza del Consiglio dei Ministri, 9-6/91039, 1944-1947; ABRD, documents cited above at note 35.

⁵⁰ IMF, CE, Application for membership, Xenophon Zolotas, Governor for Greece to the Chairman of the Board of Governors of the Fund and Bank, 13 March 1946.

legal department found in favour of admitting Italy along with Turkey, Lebanon and Syria.⁵¹

In the meantime, the Foreign Office intervened in response to entreaties from Italy. Since the question was to be re-examined in September or October, it was decided either that the peace treaty with Italy should be signed before then or else to come to agreement on a solution with the Americans, possibly by resorting to "some stratagem".⁵² Contacts were established at once and US Secretary of State James F. Byrnes intervened personally. The Italian press was quick to stress that the Italian application was moving forward thanks to America's opposition to the demands of Greece and Yugoslavia,⁵³ and Camille Gutt, Managing Director of the Fund, soon asked the Italian ambassador to provide the Executive Board with all the economic and statistical information required by the Bretton Woods agreements for admission.⁵⁴ In meetings of a special committee created by the Executive Board to study "participation" in the Fund by several countries but actually set up chiefly to examine the Italian case, the Yugoslav representative reiterated his opposition, especially given the fact that the peace treaty might be signed shortly.⁵⁵ The US representative countered that no provisions of international law barred Italy from membership of the IMF. On the contrary, Italy had been granted co-belligerent status in 1943 and nearly all the Allies had resumed diplomatic relations. Indeed so important had been the Italian contribution to the war against Germany that the Allies were preparing not to demand that Italy comply with all of the conditions of the armistice.

Needless to say, the British representative backed this position. However, confirming the agreement that had been reached, both representatives lodged the reservation that, in view of the special

⁵¹ AIME, CF, Application for membership - Competence of the Executive Board to make recommendations to the Board of Governors - special case of Italy 30/8/46; Membership - Application of new members - terms and conditions, 18 Sept. 1946.

⁵² NA, FO, 371/52965, 13 May 1946. Letter from E. Rowe Dutton to J.E. Coulson.

⁵³ AIME, CF, Tasca to the Secretary of State, 27 March 1946. For an example of the views in the Italian press, see *Il Globo* of 26 March 1946.

⁵⁴ AIME, CF, Executive Board, Document no. 37, 17 June 1946.

⁵⁵ ACS, Carte Bertone, 27/1 See also AIME, AL, CF, Board of Governors, Document no. 4, Report to the Board of Governors on Applications for Membership.

circumstances surrounding the case of Italy, its admission did not constitute a precedent for other former enemies.⁵⁶ The decision, against which Yugoslavia reserved its right to speak again, was transmitted to the Board of Governors, which on 2 October 1946 proposed the admission of Italy to the Fund by 15 April 1947. The act was signed on 27 March 1947.⁵⁷

The quota assigned was \$180 million, much less than the \$300 million forecast by the Committee on Financial Reconstruction. However, Italy did obtain the hoped-for concessions regarding exchange controls: like other members whose territories had been occupied by enemy forces, Italy was allowed temporarily to maintain or introduce restrictions on cross-border current payments, provided it moved with all possible speed to adopt measures leading to trade and financial agreements with the other member countries that would facilitate international payments and exchange rate stability.

On the occasion of the admission proposal of October 1946, Luigi Einaudi, at the time still Governor of the Bank of Italy, observed that "the problem of the reconstruction and monetary rehabilitation of each country is in the first place a domestic problem". The Fund and the World Bank "would soon become inoperative if the conditions of the members worsened to the point of not permitting them to uphold their commitments and use the resources available to them".⁵⁸ Einaudi's concerns included Italy's ability to pay the gold portion of the quota. On 20 October 1946 the gold reserves amounted to only 94 million lire at the 1936 parity. On top of this, 429 million (at the same parity) had been transferred by the Allies from the Bank of Italy's vault in Fortezza in May 1945 and deposited at the Bank's headquarters in Rome in their own name and under their exclusive control. "If we had to send the gold part

⁵⁶ ACS, Carte Bertone, 27/1.

⁵⁷ AIMF, CF, Application for Membership, Alberto Tarchiani, Ambassador of Italy, to Dean Acheson, Acting Secretary of State, 27 March 1947; Press Release no. 8, 27 March 1947.

⁵⁸ ASBI, Carte Baffi, 29/ "Accordi di Bretton Woods", *L'Italia e Bretton Woods, intervista con il governatore della Banca d'Italia*, mimeo. In this interview, which Einaudi gave immediately upon learning that Italy had been admitted, Einaudi also remarked: "It will not be possible to implement a stable and normal system of international payments and capital movements if the major obstacles to international trade and the free movement of individuals are not removed".

of the quota to the Fund", Einaudi wrote, "our stocks, amounting to a little less than \$5 million, would be absolutely insufficient".⁵⁹

A possible solution lay in the conversion of Italy's dollar holdings into gold at the official US rate. Einaudi hoped to know whether the US Treasury would accept this request, which, as we have seen, was a topic of discussion the following January during De Gasperi's visit to the United States.

Einaudi was appointed Budget Minister and Deputy Prime Minister in the new government that De Gasperi formed in May 1947. Before the deflationary programme was launched, Einaudi sought repeatedly to obtain assistance from the United States in order to "strengthen the lines of defence of the exchange rate and proceed further on the path to liberalisation and orthodoxy represented by the Bretton Woods agreements". Even after the change in policy stance, the IMF argued that the deposit multiplier remained very high and that the central bank was not truly independent of the Treasury⁶⁰ and tacitly refused to collaborate in any way. According to one judgment, the archives examined to date show that American assistance did not materialize for reasons "not all of which can be attributed to a lack of confidence in the effectiveness of the stabilisation measures".⁶¹

In reality, the documents in the IMF archives show that in its consideration of Italy's application for membership the Fund failed to appreciate the multiple exchange-rate system and the free market on foreign currencies that Italy had adopted since May 1946. A memorandum prepared by Secretary Ernest de Selliers for the Executive Board observes: "Nothing, either in the diversified nature of Italy's exports, or in its fiscal policies and administrative practices, justifies a departure from the orthodox official market policies which have been traditional in European

⁵⁹ ACS, Carte Bertone, 27/1. Einaudi sent this letter on 23 November 1946 in reply to a question from the Ministry for Foreign Trade concerning the procedure for paying the portions of the Fund quota in gold and banknotes. With regard to the latter, Einaudi advised invoking Article III, Section 5, of the Fund, which provided for the related amount to be converted into non-interest-bearing bonds repayable on demand that would appear "in the Bank of Italy's balance sheet only after the transaction had been effected". On Italy's gold reserves, see F. Cotula, C.O. Gelsomino, A. Gigliobianco (eds), *Donato Menichella, op. cit.*

⁶⁰ P.F. Asso, "La politica del cambio", *op. cit.*, p. 136.

⁶¹ *Ibid.*

countries, and which have been condoned by the Articles of Agreement of the Fund. Italy is probably the only country in Europe to have allowed the sale of currencies at rates varying widely from parity instead of combating it. It might be wise for the Fund to take a firm stand in this matter, lest other countries might be tempted to follow Italy's lead".⁶²

This premised, De Selliers proposed to the Executive Board that Italy not be allowed to become an active member of the Fund until it abolished the multiple exchange-rate system tied to the free market for foreign exchange.⁶³ At bottom, notwithstanding the fact that several provisions of the Articles of Agreement permitted discretion at least in an initial phase, the foreign-exchange arrangements that Italy had established after the war conflicted with a fundamental aim of the Fund, the promotion of exchange-rate stability. In this regard, it has been recently observed that "this aim, a direct consequence of the catastrophe of the 1930s, is perhaps that on which the Fund has been least successful".⁶⁴

Immediately following the Allied landings, Italy's foreign trade was directly managed by the Allied Military Authorities and the Control Commission. These set the exchange rate at 100 lire to the dollar and 400 to the pound. At these parities the lira was overvalued, in part owing to the acceleration in inflation, and soon no longer corresponded to real parameters. It was used only to pay the occupying forces. With the slow recovery of foreign trade involving the private sector, authorised in February 1946, a supplement of 125 percent was added to the official rate, bringing the dollar and the pound to 225 and 900 lire, respectively.

⁶² AIME, CF, Executive Board, Memorandum No. 60, March 14, 1947. The Fund was of the view that Italy had not suffered from a credit-driven inflation, at least in 1946, and that the deflationary measures adopted by Einaudi had provoked a stock exchange slump, with firms no longer able to obtain cash from the banks and seeking to sell securities, while saving stagnated (AIME, CF, Press Review, From Mr. Salle to J.L. Fisher. Subject: Italy – Blocking of Bank Reserves, September 17, 1947).

⁶³ The Secretary of the Executive Board also indicated the steps that could be taken if it was decided not to ratify the preceding resolution for Italy's admission to the Fund (AIME, CF, Executive Board, Memorandum NO. 60, March 14, 1947).

⁶⁴ M. Sarcinelli, 'What future for the IMF?', *Review of Economic Conditions in Italy*, 1999, no. 3, p. 377. On the role and the future of the IMF see also M. De Cecco, M. Sarcinelli, F. Saccomanno, A. O'Connell, 'Sistema monetario internazionale', *Rivista italiana degli Economisti*, 2005, 2, pp. 223-276.

This exchange rate was applied to all international transactions and to the clearing accounts, which were based on a balanced exchange of goods under specific licences. Generally, this involved bilateral agreements under which payment was to be made by a given date in a given currency and, beyond that date, in other currencies or gold.⁶⁵

Einaudi was not satisfied that the exchange rate's new level brought a sufficient devaluation of the lira, and his opinion was borne out by the lira's free exchange rate in the new foreign exchange markets of the dollar, sterling and the Swiss franc, from May 1946 onwards.⁶⁶ In March of that year a free-market system for foreign exchange was inaugurated with the "50-percent system" whereby exporters could choose either to use 50 percent of their proceeds in foreign exchange for purchases of essential commodities from countries with which Italy had agreements in free currencies or else to sell it at an exchange rate that varied with demand and supply. The latter was considerably higher than the official rate of 225 lire at which exporters were required to sell the other 50 percent of their proceeds to the Italian Foreign Exchange Office. Importers holding a special licence could acquire foreign exchange on the free market, i.e. at a higher rate.

This meant that there were three exchange rates: the official rate including the supplement, which was applied mainly for government purchases abroad and, generally, for the clearing accounts,⁶⁷ the average of the official rate and the free-market rate, initially used only to convert export proceeds into lire and subsequently extended to other transactions; and the free-market rate paid by importers. This multiple exchange rate system tied to the free market for foreign exchange sparked a major dispute with the IMF, in which Italy's position was firmly and skilfully

⁶⁵ AIME, CF, Bank for International Settlements. The Italian foreign-exchange system after the Second World War, C.B. 213 (a). Interesting points are to be found in G. Basevi and A. Soci, *La bilancia dei pagamenti italiana*, pp. 95-104.

⁶⁶ C.O. Gelsomino, "Moneta e sviluppo nel dopoguerra. La politica monetaria italiana negli anni cinquanta (1946-1964)", in F. Cotula (ed.), *Stabilità e sviluppo, op. cit.*, p. 277. The 125 percent supplement served to finance the fund for adjustment to international prices.

⁶⁷ Although it was frequently close to the official rate, a different exchange rate was applied to reciprocity deals whereby goods were swapped at a rate established by the contracting countries case by case.

defended by Guido Carli, who was elected Executive Director for Italy in May 1947 and took office at the end of June.⁶⁸

6. Guido Carli and the multiple exchange-rate system

Before Carli's appointment, the Fund's Managing Director, Camille Gutt, wrote to Finance Minister Pietro Campilli for information on the multiple exchange rate system following De Sellier's observations on the possibility of this being an impediment to Italian membership of the Fund. The reply was peremptory and in line both with the Bank of Italy's position on Italy's monetary sovereignty vis-à-vis the tasks of the Fund and with the conclusions of the sixth subcommittee, reviewed above.⁶⁹ Campilli explained the 50-percent system, and added: "The difficulties and uncertainty that are being faced in solving this problem are such as to suggest considering even now the appropriateness of extending the time limit for setting the definitive par value. Pursuant to Article 20, Section 4(d1), it is requested that an extension be granted beyond 90 days of receipt of the above communication of the Fund. The Italian government intends to initiate discussions with the Fund as early as possible in order to establish the extension period".⁷⁰ The request was repeated in June by Campilli's successor, Gustavo del Vecchio, who stressed the need for Italian representatives to take part in the discussions within the Fund on the subject.⁷¹

Guido Carli's appointment had been opposed by countries traditionally close to Britain, Belgium and the Netherlands; it was supported by the republics of Latin America, now that the new economic equilibria were taking shape within the Western Hemisphere and the

⁶⁸ AIME, CF, Executive Board, Circular No. 171, supplement 6, May 3, 1947; Circular No. 186, supplement 3, June 12, 1947.

⁶⁹ For Einaudi and for his successor as Governor of the Bank of Italy, Donato Menichella, the tasks of the Fund were to promote exchange-rate stability and the revival of international trade, not to lay down direct and indirect relationships between currencies (P.F. Asso, A. Biagioli and C. Picozza, "Ordinamento valutario", p. 117).

⁷⁰ AIME, CF, Exchange Arrangements. This telegram was sent on 22 May 1947 in reply to a letter from Gutt dated 25 April. An early request for information on Italy's exchange rate system had been sent on 8 April (AIME, CF, Document No. 167).

⁷¹ AIME, CF, Document NO. 185, supplement 2.

contrasts between the dollar and sterling areas were coming increasingly to the fore.⁷² In the event, Carli made his expertise felt in the sphere of personal relations and at the professional level.⁷³ He convinced Edward M. Bernstein, head of the Research Department, that the exchange-rate system in force in Italy was evolving towards the "elimination of discrimination", and succeeded in mitigating the tone and substance of the report by the head of the Western European Division to the Committee on Multiple Exchange Practices "regarding the policies followed by the different member states and their compatibility with the obligation assumed by members by participating in the Fund".⁷⁴ Bernstein, who took part in the proceedings of the Committee, was of the view that Italy's foreign-exchange policy was aimed at making the exchange rates "flexibly adaptable to changing domestic and international circumstances" and did not conflict with Italy's obligations to the Fund.⁷⁵

Carli's course of conduct reflected a clear strategy of maintaining the multiple exchange-rate system for as long as necessary while opening the way to a first operation with the Fund. Such an operation, he noted, would inescapably "give rise to serious disagreements owing to the fact that Italy has yet to declare the official par value", which created "impediments from the point of view of the Articles".⁷⁶ It was against this background that Carli, shortly after taking office at the Fund, decided to present in person a report to the Executive Board on Italy's monetary situation. Before the war, Carli told the Executive Board, Italy had imported two thirds of its coal from Germany in return for agricultural products and the remaining third from Britain. Since the war, Italy's imports of coal and wheat (the latter previously supplied by southeastern Europe) came from the United States, resulting in a deficit of around \$250

⁷² See Carli's letter of 5 July 1947 to Luigi Einaudi, in S. Ricossa and E. Tuccimei (eds), *La Banca d'Italia e il risanamento post-bellico*, pp. 439-49; also, P.F. Asso, A. Biagioli and C. Picozza, "Ordinamento valutario", *op. cit.*, pp. 110-33.

⁷³ On Carli's personality and accomplishments, see *Economia Italiana*, special issue no. 3, 1993, (September-December).

⁷⁴ Carli to Einaudi, 5 July 1947, in S. Ricossa and E. Tuccimei (eds), *La Banca d'Italia e il risanamento post-bellico*, p. 443.

⁷⁵ *Ibid.*, pp. 445-46.

⁷⁶ *Ibid.*, p. 445.

million for each item. Italy's payments deficit was largely caused by the dislocations in its foreign trade, Carli said. Until these were remedied, there was little prospect for price stability. "Since the exchange rate had to move with the price level if exports were to continue, the exchange rate could hardly be stabilised before the economy was put into balance".⁷⁷ This in turn depended on the restoration of normal trade within Europe.

Italy had adopted the multiple exchange-rate system to meet the "dual need for a fixed rate in connection with financial charges imposed by the Armistice and for a fluctuating rate that would facilitate equilibrium between external prices and changing internal prices", which the average rate had approximated since the introduction of the 50-percent system.⁷⁸

The system covered the majority of foreign-exchange transactions, but it had also created discriminations against non-commercial payments, to which it had been extended in 1947,⁷⁹ and exports under payment agreements using the official rate. In 1946 this had caused exports to decline or to be diverted to countries where the average rate could be obtained. It had been important for Italy to bring its trade with Europe back within the scope of the average exchange rate, Carli said. This had been done by excluding some products from the payment agreements and settling the transactions in dollars or other free currencies at the same effective rate as that for the 50-percent system; by extending the use of private compensation to certain countries; and via payment agreements, such as those with Belgium and Poland, which specified the average rate as the basis for settlements both ways.

Other steps had also been taken to eliminate discriminations, Carli reported. With Britain, Italy had taken measures "to secure quotations for buying and selling rates for sterling and United States dollars, which are related to one another at the Bank of England's middle rate for the United States dollar". In Italy, where imports handled by UNRRA in 1946 had been priced for internal sale at a low rate not reflecting the level of

⁷⁷ AIMF, CF, Executive Board Minutes, Meeting 182, July 1, 1947, Italy's Monetary Situation.

⁷⁸ *Ibid.*

⁷⁹ Between June and July 1947 the Fund asked for clarifications on the exchange-rate regime applied to tourists (AIMF, CF, Memorandum, Foreign Exchange Regulations Applied to Tourists in Italy, July 9, 1947).

external prices, this difference was eliminated in February 1947 and such imports were now sold on the domestic market on the basis of the international price converted at the average exchange rate. The objective was to establish a stable exchange rate as prescribed by the IMF, but this was not desirable for the time being in the light of Italy's economic situation. As a result of the steps taken by Italy, virtually 100 percent of exports and around 85 percent of imports were now settled at or near the average rate, Carli said, and it was hoped that the remaining items could soon be brought under the system.⁸⁰

The multiple exchange-rate system also indirectly created preferences and discriminations for Italy's trading partners; the difference between the exchange rates with free currency areas and those with specific payment agreements increased exports to the former and imports from the latter. In the second half of 1946 export settlements in clearing fell from 25 to 16 percent while those in free currency rose from 75 to 84 percent". Consequently, trade flows sometimes contracted not because of a shortage of demand or supply but owing to the mechanism of trade settlement.⁸¹ Between August 1945 and April 1947, Italy had concluded payment or exchange agreements with numerous countries, including Spain, Sweden, France, Denmark, Belgium, Norway, the Netherlands, Poland, Greece and Switzerland; the agreement with the latter never entered into force because of opposition from the United States and Britain to some of its financial clauses.

The Fund contended that Italian exporters preferred to deal with countries with which Italy did not have trade agreements, in order to be paid in free currency, or, where there were such agreements, to export outside of clearing. Furthermore, exporters frequently used the 60-day period permitted by law to accumulate foreign exchange which they subsequently did not use. At the end of November 1946 these funds amounted to \$14.9 million, 7.5 million pounds and 1.9 million Swiss francs, as well as minor quantities of other currencies.

⁸⁰IMF, CF, Executive Board Minutes, Meeting 182, July 1, 1947, Italy's Monetary Situation.

⁸¹ G. Basevi, A. Soci, *op. cit.*, p. 96.

Multiple, discriminatory exchange rates would have been unsustainable and incompatible with the aims of the Fund in the long run, but they could not be done away with overnight because this required a normalisation of the currency markets, not just in Italy but in the rest of Europe.⁸²

Between January and April 1946 the share of Italian exports to countries with which trade agreements were in place increased from 15 to 50 percent before falling back to 28 percent in October, while the share of imports from countries with clearing agreements peaked at 15 percent in July and retreated to 8 percent in October.⁸³

Between May and December 1946 the dollar rose on the free market by 55 percent. Following a brief pause due to the limitation of export licences, it continued to rise in the second quarter of 1947 to reach 906 lire. The lira subsequently strengthened, at least until November, in response to the progressive drying up of international liquidity, the changing political prospects and the adoption of measures such as "*franco valuta*" imports, which made possible "the repatriation of foreign exchange, evading the legal controls".⁸⁴

The lira's recovery created more than a few difficulties for Italian exports, and the problems were compounded by the rise in domestic prices up to September 1947. Accordingly, in August 1947 the official exchange rate was reset at 350 lire to the dollar, but the Fund considered the Italian measures insufficient, inasmuch as they were based on a persistent difference between export and import rates.⁸⁵

In August exporters of certain categories of goods containing a high percentage of raw materials were permitted to withhold 50 percent of the foreign currency proceeds. The same derogation was later granted to other sectors. These measures complicated the system and opened the door to arbitrary discriminations, but attenuated the consequences of the fall in export rates and the corresponding average rate. Nonetheless, the average exchange rate continued to fall until November,

⁸² AIMF, Staff Memorandum No. 79, April 11, 1947.

⁸³ *Ibid.*

⁸⁴ C.O. Gelsominò, "Moneta e sviluppo nel dopoguerra", *op. cit.*, p. 281.

⁸⁵ AIMF, CF, Bank for International Settlements. The Italian foreign-exchange system after the Second World War, C.B. 213 (a).

reaching a level at which few Italian products could be profitably exported.⁸⁶

Domestic prices also began to decline thanks to the Einaudi measures, and the government, fearing that an excessive appreciation of the lira might erode export competitiveness, abolished the dual foreign-exchange market *de facto* on 28 November. It was decided that the 50 percent of foreign currency to be sold at the official exchange rate had to be purchased at a price based on the average of free-market quotations in the preceding month. To promote the expansion of the free market, it was decided to deduct 20 percent of the purchase price for the portion of the available funds that was not used within two months. The system was extended to all financial and commercial operations that gave rise to receipts in free currency. With the liberalisation the lira's free-market exchange rate, which under the previous 50-percent system had exceeded 900 to the dollar, fell by between 570 and 600 lire to within the new upper and lower limits established at 650 and 350 lire, respectively.⁸⁷

A few weeks earlier, on 11 November, the Executive Board had examined the position of the eight members that had not yet established a par value on the basis of a report prepared by the Legal Department.⁸⁸ On that occasion the Fund recalled some of the decisions taken between January and August 1947 on this subject and on the question of multiple exchange rates, with the aim of targeting an informational letter to each of the eight countries.

In general, multiple exchange practices applied to current international transactions constituted a restriction on payments and transfers (Executive Board, 5 February). In addition, the Fund had the authority to intervene regarding multiple exchange rates, because the maintenance or gradual removal of such rates fell within its sphere of action (Executive Board, 10 June). Only the formerly enemy-occupied countries, which were covered

⁸⁶ ASBI, Rapporto su una missione in Italia di Giorgio Sallè e Earl Hicks, b. 30 December 1947.

⁸⁷ A. Graziani, *Lo sviluppo dell'economia italiana, op. cit.*, p. 42; G. Basevi, A. Soci, *La bilancia dei pagamenti italiana, op. cit.*, pp. 98-99.

⁸⁸ AIMF, Changes in Exchange Rates by Members who have not communicated a par value, Legal Department, Executive Board, Document No. 235, Attachment 10, November 10, 1947.

by the transitional provisions, could adopt multiple exchange practices, provided that the Fund had ascertained that such practices were necessary and were not contrary to the purposes of the Agreement. The decision of 12 August on floating exchange rates was particularly significant.

As in the case of fixed rates, "the scope of the free market dealings should be agreed. Any changes in this scope, of course, should also be subject to agreement with the Fund. A tendency to be followed should be to limit the scope of the free market to capital transactions. The important objective would be to prevent, on the one hand, the market from being supplied with export proceeds and, on the other hand, the foreign exchange acquired in the market from being used for imports. Where the free market embraces trade transactions, its limitation to the less essential goods would be in line with this policy. Wherever possible, in cases where trade transactions are involved, the member should be asked to agree on establishing certain limits beyond which a rate will not be allowed to fluctuate".⁸⁹

The decisions of the Executive Board explain why Bernstein proposed changes to the original 50-percent system approved by the Italian government in May 1947 and the Fund's constant attention to monetary developments in Italy.⁹⁰

On 10 November the Fund's Managing Director, Camille Gutt, wrote to the General Administration of the Italian Treasury Ministry that Italy had communicated the par value of the lira on the basis of the exchange rates prevailing on 27 March 1947, when Italy became a member of the Fund. An agreement was now necessary in order to definitively establish the lira's par value with the dollar. A second agreement was also needed on the timetable for declaring it. Since the 90-day period prescribed by the Articles had been extended without a definite deadline, it was now essential to set a date of expiration for the extension period. Gutt recommended, in particular, that every change in the par value had to be agreed with the Fund, which needed to be informed as far in advance as possible.⁹¹

⁸⁹ AIME, Executive Board, Document No. 235, November 10, 1947.

⁹⁰ S. Ricossa, E. Tuccimei (eds), *La Banca d'Italia, op. cit.*, pp. 434-48; F.P. Asso, A. Biagioli, C. Picozza, "Ordinamento valutario", *op. cit.*, p. 112.

⁹¹ AIME, Executive Board, Document No. 235, Attachment 2, November 10, 1947.

On 28 November, the same day that the government decree sanctioning the new exchange-rate system was approved, Carli presented a memorandum to Gutt stressing that the purpose of the new measures was to bring the actual rate of exchange closer to the ratio between internal and external price levels. The previous system of averaging official and free rates had inevitably caused exchange-rate variability. Moreover, the fall in the average rate, which had peaked at 566 lire to the dollar in May before declining to 465 in November, had been paralleled by the rise in costs, which undermined Italy's ability to export. Accordingly, as an incentive for exports it was necessary to encourage a rise in the average exchange rate. This had determined the government to issue the new measures, whose effects can be summarized as follows.

First, the foreign-exchange regime remained basically unchanged, but since the rate at which the monetary authorities bought 50 percent of the proceeds in foreign exchange was the average of the free rates prevailing in the preceding month, the gap between effective purchases (export rate) and effective sales (import rate) for foreign exchange had been practically eliminated. The increase in exports had been such that it was no longer necessary to maintain the special regimes for certain industries and it was now possible to eliminate some discriminations. In addition, since the effective rate of exchange for legal transactions was now higher than the black market rate, there was no longer an incentive for such balance-of-payments invisibles as tourism and emigrant remittances to enter by way of the illegal market; the availability of foreign exchange for the monetary authorities would increase as a result.⁹² In fact, as some representatives of the Fund observed during a mission to Italy at the end of November 1947, the elimination of the constant base of the average could accentuate the variations in the effective rate in the short run. Those variations would now range within the export rate's limits of 350 and 650 lire per dollar; the rate needed to be closely monitored because of the possibility of future depreciation. The Italian government had renounced the possibility of raising the average rate by increasing the official rate. This may have been a mistake, justified

⁹² AIMF, Executive Board, Memorandum No. 99, November 28, 1947.

only by the fact that it was a simpler way to avoid maintaining sterling at par.⁹⁵

Carli explained to the Executive Board that the purpose of Italy's foreign exchange system was to find an exchange rate level at which the value of the lira could stabilise. When this was achieved, Italy hoped to come to an agreement on a par value and was ready to accept all its rightful obligations.

7. One more obstacle: the sterling-dollar cross rate

The good level of exports compared with other countries was due essentially to this exchange-rate system. The representative of the United States, Andrew Overy, agreed with the position that Carli had laid out. The British representative, George Bolton, wanted to know what steps the Italian government had taken to maintain cross rates for various currencies at the established parities. He believed that the Fund could not, on the one hand, accept a system which allowed discriminations against certain member currencies and, on the other hand, hold those members to fixed and stable par value.

Carli said that the cross rates had not been maintained under the previous system, and the new measures would not make any change. He added that cross rates did not necessarily stem from the floating rate system. Rather, they were a function of the balance of trade. Italy had a large trade deficit with the United States, so dollars were scarce and the free price was high. However, the United Kingdom shipped so few goods to Italy that Italy had a considerable trade surplus. Hence, sterling was not in demand and the price suffered. Carli did not feel that it was Italy's responsibility to finance Britain's trade deficit by open-market purchases of sterling.⁹⁶ Bolton held that the multiple exchange-rate system conflicted with the rules of the Fund. If the latter accepted the Italian measures, he warned, the British government would lodge a formal protest.⁹⁷

In reality, Britain's unhappiness had deeper roots. As Italy ran a trade

⁹⁵ ASBI, *Rapporto su una missione in Italia di Giorgio Sallè e Earl Hicks*, b. 30, December 1947.

⁹⁶ AIME, CE, *Executive Board Minutes, Meeting 229, Exchange Actions - Italy*, December 4, 1947.

⁹⁷ AIME, CE, *Executive Board Minutes, Meeting 230, Exchange Actions - Italy*, December 4, 1947.

surplus with the sterling area, the cross rate between sterling and the dollar was almost always below the official rate of 4.03. The cross rate fell to 2.55 at the end of 1946 before rising in the early part of 1947, thanks to a financial agreement with Italy whereby the Italian monetary authorities pledged to "take the necessary measures to secure quotations for buying and selling rates for sterling and for United States dollars which shall be related to one another at the Bank of England's middle rate for the United States dollar".⁹⁶ Italy accepted the convertibility of sterling and undertook to maintain a dollar-sterling cross rate of 4.03.

Shortly after the agreement, in a meeting at the Italian Foreign Ministry between a British delegation and an Italian delegation that included Carli, the British pointed out that the considerable trade surplus forecast for Italy could create a rather serious situation for Britain owing to Britain's difficult monetary situation. British exports to Italy were impeded by the exchange-rate system, which made shipments on credit difficult, and by discriminations in the greater ease of issuing import licences for goods from countries with which Italy had bilateral agreements.⁹⁷

In August sterling was newly declared inconvertible for all countries and the agreement with Italy became irrelevant. The policy of support for sterling on the part of the Italian monetary authorities was abandoned and the cross rate between the dollar and sterling was left to the free play of supply and demand.⁹⁸ It must be recalled that there was also strong opposition to Italy's foreign-exchange policy from European Fund members with which Italy had a structural deficit in clearing, such as Belgium and the Netherlands.⁹⁹

Against this background, it was essential to understand whether the multiple exchange-rate system fell within the scope of Article XX, Section 4(d) (iii) of the Fund. If it did, prior agreement of the Fund would have

⁹⁶ AIME, Staff Memorandum, Number 131, Rate of the Pound Sterling and Dollar in Italy, Authorized for Exporters, October 29, 1947.

⁹⁷ NA, BT, 11/3439. The meeting took place on 27 May 1947.

⁹⁸ AIME, Staff Memorandum, Number 131, Rate of the Pound Sterling and Dollar in Italy, Authorized for Exporters, October 29, 1947.

⁹⁹ See P.F. Asso, A. Biagioli and C. Picozza, "Ordinamento valutario", *op. cit.*, p. 118; on the policies concerning the exchange rate between dollar, sterling and the Italian lira, see G. Tullio, *Monete ed economie. Le relazioni anglo-italiane nel secondo dopoguerra*, (ESI: Napoli 2001).

been required;¹⁰⁰ if not, the system had to be judged arbitrary. Otherwise, it would have been necessary to hypothesise that Italy was not a full member of the IMF, a hypothesis that the Executive Board rejected out of hand. On 4 September 1947, following a statement by Guido Carli specifying that Italy was not subject to Article XX, Section 4(d) (iii) as it had yet to communicate a par value but had only indicated the system of rates in force and described the machinery,¹⁰¹ the Board issued a press release in which it specified that in some cases the member states needed to take extraordinary measures in order to contend with particular difficulties; moreover, the provisions issued by the Italian government had encouraged exports and brought the exchange rate between the lira and the dollar closer to the equilibrium between domestic and external prices, pending action by Italy at the earliest possible date to define fixed and stable exchange rates.¹⁰²

The fact that Italy had not consulted with the Fund and the absence of a definitive declaration of the lira's par value – Italy had communicated the provisional par value of the lira on the basis of the exchange rates prevailing on 27 March 1947, the date of its admission – were the subject of a letter from Gutt to Treasury Minister Gustavo Del Vecchio.¹⁰³ The Treasury Minister explained that the measures taken by Italy constituted further progress towards the monetary stabilisation called for by the Fund, and that setting a fixed exchange rate would have been a mistake in the light of Italy's economic situation. Between the adoption of the measures of 28 November 1947 and the end of February, when Del Vecchio replied to Gutt, the dollar rate of the lira had displayed considerable stability, fluctuating only between 597.76 and 578.50.

Del Vecchio therefore voiced misgivings about the Fund's policy that,

¹⁰⁰ In practice, this meant the obligation to agree on changes of the par value with the fund in every case, even beyond the 90-day time limit.

¹⁰¹ AIME, CF, Executive Board Minutes, Meeting 230, Exchange Actions - Italy, December 4, 1947

¹⁰² AIME, Press Release No. 28, December 4, 1947.

¹⁰³ AIME, CF, Executive Board, Document No. 235, Revision 2, Supplement 2, February 26, 1948. Similar letters were sent to the eight countries that had not yet communicated their currencies' par value in dollars or gold: Italy, Greece, Yugoslavia, China, Brazil, Uruguay, the Dominican Republic and Poland.

when a multiple currency practice included a free market with a fluctuating one, the member state should agree with the Fund on the scope of the transactions permitted so as to eliminate the fluctuations in the free market. When this was not practicable, the Fund's policy was to "encourage members to exclude transactions from the free market to the extent that this would be reasonable in the circumstances of each case".¹⁰⁴

Instead, the Italian government's policy had been to permit the greatest possible number of transactions to benefit from the system established by the creation of an export exchange market, for "the more extensive the scope of the market, the easier it is to eliminate excessive fluctuations". The US State Department itself had recognised that Italy's exchange system had the merit of diminishing the differences between the official and the black market rates, thus eliminating the incentive to evade controls.¹⁰⁵

The adjustment of the exchange rate to the fluctuations in internal prices had avoided an overvaluation of the lira – in contrast with the overvaluation of currencies of other Fund member countries, which had thus contributed to payments imbalances – and had supported exports, as foreseen by the report submitted to the US Congress for determining the amount of the Interim European Aid Programme for the period 1 October 1947 to 31 March 1948. Albeit via the multiple exchange-rate policy, the Italian government had always avoided using exchange-rate fluctuations as a weapon of competition and had sought to achieve gradual elimination of the discriminations with respect to goods and the origin and destination of imports and exports. As to the obligation of consulting the Fund before changing foreign-exchange policy, Del Vecchio pointed out that it could sometimes be harmful, as in the case of agreements requiring immediate enforcement because they concerned perishable goods.¹⁰⁶

Shortly after this, Italy's multiple exchange-rate system won its case in terms of results and vis-à-vis the Fund. When, in 1948, ratios with the

¹⁰⁴ F. Spinelli, M. Fratianni, *Storia monetaria d'Italia, op. cit.*

¹⁰⁵ *Ibid.*

¹⁰⁶ *Ibid.*

various currencies began to be determined through the cross rate with the dollar and following the 30 percent devaluation of sterling against the dollar, in 1949, the lira depreciated by only 8.7 percent against the dollar, weakening from 575, the level at which it had stabilised after the measures of November 1947, to 625, where it would remain for more than two decades. Against a \$450 million current account deficit for Italy in 1947,¹⁰⁷ in 1948 imports fell by 8 percent and exports rose in real terms by 58 percent.

In a report on economic conditions in Italy in 1948, which Bernstein approved, Robert Triffin wrote on 4 March 1949 that it was impossible not to be struck by the enormous progress Italy had made since the second half of 1947. "The progressive unification and stabilisation of exchange rates, the extraordinary improvement in exports and in the balance of payments, the stabilisation of domestic prices and wages and the near balance achieved for the first time between them, are the most obvious signs of this recovery".¹⁰⁸

In 1948 the IMF acknowledged that in some countries, such as Italy, that had suffered high inflation, temporary resort to a floating rate combined with other appropriate measures could attain the ultimate aim of stabilisation far more effectively than the over-hasty fixing of a par value.¹⁰⁹

8. The consultations of the fifties and the long way toward convertibility

As noted above, a par value had not been established for the lira. The exchange rate of approximately 625 lire per US dollar had been maintained since September 1949, but in late 1947 the Fund had agreed to extend, to a date to be agreed upon between the Fund and Italy, the period of 90 days within which a par value should be communicated.

¹⁰⁷ Net of "franco valuta" imports, UNRRA and other agency imports, donations and \$62 million from the balance on services (G. Basevi, A. Soci, *La bilancia dei pagamenti italiana*, p. 92).

¹⁰⁸ ASBI, Carte Baffi, 30/Italy's Progress in 1948, p. 1.

¹⁰⁹ IMF, Annual Report 1948; ASBI, Carte Baffi, 30, 1948-50, summary of the IMF's third annual report.

Yet the Fund understood that "Italy's reluctance to communicate a par value lay in a desire, for internal political reasons, to avoid provoking a public discussion of the appropriateness of the rate"¹⁰. As early as at Bretton Woods it was recognised that conditions after World War II would probably be such as to make it impossible, for some time to come, for many countries to accept in full the obligations pertaining to abolition of restrictions and establishment of convertibility.

Therefore, a transitional period, during which members might maintain and adapt their exchange restrictions, had been provided by Article XIV¹¹. But even members taking advantage of this Article were to do their best to remove restrictions as soon as possible. After five years they were to consult with the Fund annually regarding any remaining restrictions, and the Fund was given authority to apply pressure on them to withdraw such restrictions.

This was the case for Italy, whose government consulted the Fund under article XIV, Section 4, of the Fund Agreement concerning the "further retention of its transitional arrangements". The first consultation was held in Rome on 2 September 1953 but there appeared some misunderstanding on the nature of the discussion, if the representatives of the Fund felt the need to stress that "the Italian representatives would have to speak in the name of their government".

It is noteworthy that, in that very year, Milton Friedman pointed out the declining role of gold in postwar monetary arrangements, arguing for a flexible exchange rate¹². For the 1955 consultations a staff group, consisting of John Stevens (Director of the European Department),

¹⁰ IMF, CF, C/Italy/420.1, 1958 Consultations, Briefing papers.

¹¹ Article XIV, Sec. 4 stated: "Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restriction inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favourable for the withdrawal of any particular restriction, or for the general abandonment of restrictions inconsistent with the provisions of any other article of this agreement".

¹² F. Cesarano, *Monetary Theory and Bretton Woods. The construction of an International Monetary Order*, (Cambridge University Press: Cambridge 2006), p. 193.

Gabriel Ferras (Deputy Director of the Exchange Restrictions Department) and Jocelyn Clark (Assistant Division Chief, European Department) visited Rome for the purpose of discussion with representatives of Italy. The principal spokesman for Italy, as in 1953 and 1954, was Carli, then Advisor of the *Ufficio Italiano dei Cambi*, former Executive Director of the Fund, member and former Chairman of the EPU Managing Board, Chair of the Board of *Mediocredito*¹¹³. Obviously, also Carlo Gragnani, then Executive Director of the Fund for Italy, and officials of the Bank of Italy and the Ministry of Foreign Trade were present.

The discussion took place against the background of the Vanoni Plan of Economic Development, designed to create, over a ten-year period, new industries and employment opportunities, particularly in the South, and to ensure that, at the end of the ten-year period, the balance of payments would be in equilibrium¹¹⁴. The plan did not attempt to lay out rigid annual development programmes to be implemented regardless of their effects on internal stability, but to set in train the future course of economic policy. It is worth pointing out that the Fund staff noted that two of the crucial factors in future progress were the maintenance of wage stability on the one hand, and restraint on consumption on the other.

On this occasion, the staff representatives discussed with the Italian authorities the problems connected with the establishment of a par value for the lira. The Italian representatives informed the Fund staff that, during the past few months, several new exchange measures had been adopted, the purpose of which was to align the Italian foreign exchange system with that prevailing in a number of other EPU countries, and also to create the technical conditions conducive to an

¹¹³ On the role of Carli in the early years of EPU, see J.C. Martinez Oliva, M.L. Stefani, "Dal Piano Marshall all'Unione Europea dei pagamenti. Alle origini dell'integrazione economica europea", in F. Cotula (ed.), *Stabilità e sviluppo negli anni Cinquanta*, op. cit., pp. 264 ff.; J.C. Martinez Oliva, *Italy and the Political Economy of Cooperation: The Marshall Plan and the European Payments Union*, Banca d'Italia, Quaderni dell'Ufficio Ricerche Storiche, 6, April 2003, pp. 7-28.

¹¹⁴ AIMR, CF, C/Italy/420.1, Article XIV Consultations, Staff Report and Recommendations, 1955 Consultations, p. 2.

exchange market operating under convertibility. The first of these measures, which was adopted on 1 April 1955, was to simplify the system of non-resident accounts. The second measure (taken at the end of July) allowed Italian residents to retain, for seven days, their earnings in certain currencies specified by the Italian authorities; at the end of this seven-day period, the currencies in question would be handed over to an authorised bank. The third measure, which was taken in August 1955, provided for Italy to join the multilateral arbitrage system already in effect in several OEEC countries.

These various measures had substantial advantages in terms of decentralising the exchange system, introducing into it a greater element of flexibility, and were a necessary step on the path to convertibility. Notwithstanding this progress towards convertibility, the Italians were quite cautious in estimating the balance of payments risks involved in removing restrictions and discrimination: "although the internal economy is in equilibrium, this equilibrium could be easily upset, and any backward step in terms of having to reimpose restrictions in the future would have serious consequence on public confidence. Thus, though the Italian policy had been, and continued to be, one of moving towards further liberalisation and non-discrimination, the Italian representatives felt that the circumstances required that they should proceed with caution"¹¹⁵.

Notwithstanding this caution, in 1955 Law no. 955, which had been proposed by Guido Carli and had been backed since 1953 by the then Minister of Foreign Commerce, Costantino Bresciani Turrone, produced a new leap forward for the Italian economy, thanks to the complex mechanism of financing exports on credit envisaged by the law¹¹⁶. This mechanism included several public and private entities, such as INA, IMI and the forementioned *Mediocredito*. At the same time, the European Monetary Agreement, which started to provide loans using an *ad hoc* fund, was based on a multilateral system of regulation which inherited

¹¹⁵ AIME, CF, C/Italy/420.1, Article XIV Consultations, Staff Report and Recommendations, 1955 Consultations, pp. 10-11.

¹¹⁶ See F. Sbrana, *Portare l'Italia nel mondo. L'IMI e il credito all'esportazione 1950-1991*, (Il Mulino: Bologna 2006), pp. 57-58 and 137.

and broadened the one still in force within the EPU, with the aim of facilitating the return to convertibility¹¹⁷.

During 1956 restrictions and discrimination against the dollar area were further reduced: a number of bilateral agreements were eliminated and Italy embraced the regional payments arrangements of various European countries with Argentina and Brazil. Moreover, further steps were taken to extend the transferability of the lira.

While the Bank of England argued a for flexible exchange rate, in opposition to the Bretton Woods agreements, as pointed out by Milton Friedman, the Italian monetary system was considered as still not ready to take on the challenge of convertibility, which, in any case, was to be carried out in compliance with the rules of Bretton Woods¹¹⁸. In order to achieve this, on 25 July 1956, Law no. 786 was approved, creating a controlled but monopoly-free market for official exchange rates: in fact, it laid down restrictions for banks authorised to operate with foreign banks while operators had to hand over the currencies earned abroad and buy those indispensable for their imports.

From 27 January to 4 February 1958 the Fund representatives once again met the Italian officials (see *Appendix*), mainly Guido Carli, then Minister of Foreign Trade, Donato Menichella, Governor of the Bank of Italy, and also Pasquale Saraceno, Chairman of the Committee for the Development of Employment and Income. Concerning the par value, Menichella was afraid that if the government were to set a fixed par value, various vested interests would vie for preferential treatment in the determination of the rate of exchange and considered this avoidable. Shortly after this, Italy's gold subscription (\$ 45 million) was paid in April 1958, while the local currency subscription had yet to be paid.

On 27 December 1958 the government of Italy, along with the governments of Belgium, Denmark, France, Germany, Luxembourg, Netherlands, Norway, Sweden and the United Kingdom, informed the IMF that they had taken measures to establish the convertibility of their currencies for non-residents; "in general terms, this means that the

¹¹⁷ J.C. Martinez Oliva, G. Schlitzer, *Le battaglie della lira. Moneta, finanza e relazioni internazionali dell'Italia dall'Unità all'Euro*, (Le Monnier: Firenze 2005), pp. 130-132.

¹¹⁸ G. Carli, with P. Peluffo, *Cinquant'anni di vita italiana*, *op. cit.*, p. 199.

currencies of these countries will, with some minor exceptions, be convertible by non residents not only as hitherto into each other's currencies but also into US dollars¹¹⁹. The Fund welcomed these monetary measures as a major step towards the establishment of a truly multilateral system of payments in accordance with its statutory objective.

9. Conclusion

Italy now registered an annual rate of growth of production of 10 per cent while reserves had risen almost five fold and trade with other countries had greatly increased, partly thanks to the Treaty of Rome, which in March 1957 gave birth to the European Economic Community. The level of the country's economic openness, measured by the ratio between the total value of trade and GNP, also increased from 20.5 per cent in 1953 to 25.8 per cent in 1960. Not surprisingly, that very year Italy proposed an official par value of 624 lire per dollar. The IMF accepted this proposed value, which actually corresponded to the exchange rate that had prevailed for several years. The determination of a par value and the consequent return to convertibility put an end to a long and laborious process by which Italy was eventually able to comply fully with the rules set out by the IMF¹²⁰.

This process showed the validity of Italy's foreign-exchange system and the autonomous nature of the economic policy Italy had pursued, especially vis-à-vis the IMF, an aspect which has been documented, as we have seen, by the recent literature. This may help us to revise the traditional interpretation of the relations between Italy and the United States, and, more generally, the timeworn model of the Old World's economic subordination to the New.

¹¹⁹ AIME, Press release no. 294, December 1958.

¹²⁰ J.C. Martínez Oliva, *Le battaglie della lira*, *op. cit.*, p. 133. The official par value was declared on 30 March 1960; in February 1962 Italy complied with the obligations of Article VIII of the Statute, which set a general and ultimate objective. See also J.K. Horsefield, *The International Monetary Fund*, p. 56. On the degree of openness, M. Gomellini, *Il commercio estero dell'Italia negli anni sessanta: specializzazione internazionale e tecnologica*, Banca d'Italia, Quaderni dell'Ufficio Ricerche Storiche, 7, giugno 2004, pp. 14-15.

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Appendix

Italy and the International Monetary Fund.
From Multiple Exchange-Rate System
to Convertibility

ITALIAN CONSULTATIONS 1958 (CONFIDENTIAL)¹²³

Meeting with Prof. Guido Carli, Minister for Foreign Trade
Ministry of Foreign Trade, January 31, 1958

Present:

Representatives of Italy:

Prof. Guido Carli, Mr. Francesco Masera, Mr. Giovanni Magnifico

Fund Representatives:

Mr. Charles L. Merwin, Mr. Roland Kalivoda, Mr. Aldo Guetta

Observer:

Mr. Carlo Gragnani, Executive Director of the Fund

Mr. Merwin thanked *Mr. Carli* for taking the time to see the Fund mission and said that they were pleased to note the progress that had been made by Italy in simplifying its exchange regulations, in reducing discrimination, and in eliminating bilateral payments arrangements. He said that these were considered "steps in the right direction", and hoped that it was the intention of the Italian authorities to continue with further progress in this field. He had noted that there was still some substantial discrimination against dollar imports, which some officials had indicated might continue, and wondered what further steps were contemplated in this sector. *Mr. Carli* reaffirmed that it was the aim of the Italian authorities to eliminate restrictions and discrimination. He noted that agriculture presented a particular problem in this regard, as was the case in most other countries. *Mr. Carli* said that he was sure the Fund would welcome the steps that had been taken to reduce dollar discrimination, and he emphasised that in this sector it was important to consider not only the *de jure* reduction which occurred last June but also the *de facto* reduction which had been announced a few days ago. This announcement listed commodities for which he had given instruction that licences were to be granted freely during a specified period of time (for most items 12 months) irrespective of the area from which it was proposed to import them. When this list was announced to the press it was given a sympathetic reception, and he had hoped that the experience with this list would enable the Italian authorities to make further progress in this field. This an administrative step taken by himself as Minister, which committed the licensing authorities to grant licences for the products listed for a specified period of time.

Mr. Carli then described a new series of monthly statistical reports which the Ministry was planning to begin issuing shortly. These reports will show detailed

¹²³ AIME, CF, C/Italy/420.1, 1958 Consultations, Meeting with Prof. Guido Carli, Minister for Foreign Trade.

figures for the balance of payments on a cash basis, the amount of applications for import licences, and the amount of those granted, by specific commodities. It was hoped through this procedure to bring to the attention of the public the impact which import licensing was exercising on the domestic economy – particularly the extent to which consumer goods were being kept out by licensing regulations. He added that it would also provide information on the other side, i.e. it would tell Italian producers the volume of goods coming into Italy through the licensing procedure which competed with their products. However, he felt that dissemination to the public and discussion of the facts of the import licensing policy would constitute a salutary check on the discretionary powers of his own officials.

Incidentally, he mentioned that these publications would also show details of export licensing. In this area he said that the commodities subject to export licensing were mainly those of strategic importance. There were a few exceptions, e.g. for health and hygienic reasons, but these were not significant.

Mr. Merwin then mentioned that, in the mission's talks with the Italian officials, they had gained the impression that the prospects for the Italian economy were "rosy". People did not seem to be concerned about the effects on Italy of the recession abroad, nor were the investment plans of the Italian industrialists being curtailed. In other words, there was a feeling of optimism in Italy which did not exist in many other countries. *Mr. Carli* said he was less optimistic than the officials with whom the mission had been talking. He said that Italian foreign trade was subject to wide fluctuations, and there would be some impact on it, not only from the recession in other countries but also from the Common Market. As far as the latter was concerned, he saw two major difficulties. The first arose out of the Italian system of taxation: a relatively large part of government revenue originated in indirect taxes on consumption, on production, and on turnover. Even if the Minister of the Treasury makes no change in the tax rates, the total of taxes paid by the Italian economy would increase as a percentage of the national income. This would increase the difficulties of Italian firms competing in other common Market countries where the tax system relies more heavily on direct taxes on income. The second difficulty that he saw in Italian participation in the common Market arose out of the position of France and the efforts which that country is making to continue subsidisation of its exports. He recognised that the open subsidies of French exports had been removed, but he said that the system of special identity cards for exporters made it possible for the authorities to give subventions to the export group by indirect methods. He disapproved of this procedure: moreover, he considered it harmful to the French economy; but he said other countries would be forced to take similar measures unless the French could be persuaded to avoid such subsidisation. He said that the Italian authorities were determined not to impose restrictions on their trade, even though this would theoretically be possible in the early stages of the Common Market, but would be prepared to utilize all of the available safeguards provided in the Treaty to the extent that

this was necessary to protect Italian enterprises from the effects of measures such as those planned by the French.

Mr. Merwin then asked whether the decline in raw material prices would be expected to have much of an effect upon Italian exports to raw-material producing countries. *Mr. Carli* replied that Italian exports had expanded sharply in the second half of 1957, due in part to an improvement in the terms of trade resulting from the decline in raw material prices. He added that in the first half of 1958, Italian exports may be feeling the impact of decreased incomes in the raw-material producing countries. He then gave some figures illustrating the sharp changes that have occurred in Italian exports for the first 11 months of 1956 as compared with the first 11 months of 1957. To a number of countries exports went up sharply: Canada, 32 per cent; Yugoslavia, 69 per cent; to some countries exports had fallen sharply: Ceylon, 46 per cent, Japan, 34 per cent and Syria 32 per cent.

Mr. Merwin then asked what the experience had been with Brazil and Argentina with which countries there were special "club" arrangements. *Mr. Carli* said that Brazil provided an example of a successful "club" arrangement: Italy had gained a larger proportion than hitherto of Brazil's imports. Exports to Brazil had increased 43 per cent and imports had fallen 18 per cent. With Argentina, the experience had been less happy. The Argentineans admittedly had some arrears to pay to Italy but, even making allowance for this, there seemed to be indication that Argentina was not utilising all the currencies that it earned from the "club" in the "club" member countries.

Yugoslavia was another example where the multilateralisation of payments had resulted in expanded turnover both ways. In addition, the Yugoslavs were using multilateral lire to obtain other currencies. Imports from Yugoslavia had increased 10 per cent, in part due to increased purchases of livestock (despite agricultural protest). Exports to Yugoslavia had increased 69 per cent, the increase consisting largely of machinery sold on credit. In the case of Egypt, he noted that multilateralisation of payments had been instrumental in causing exports to fall less than imports had fallen. Exports to Egypt had fallen by 7 per cent while imports from Egypt had decreased by as much as 37 per cent; Egyptian cotton had proved uncompetitive despite a reduction in price.

In response to a question, *Mr. Carli* said that Italian exporters appeared to have been authorized to freely engage in exports on credit. Such exports were financed in part by *Mediocredito*, but more by the firms' own resources and other means. Regarding the use of deposits of foreign currencies to pay for Italian imports, he said he did not feel the increase in the use of this procedure had been excessive.

Mr. Merwin said that another point which they had raised with various Italian officials was the matter of Italy's subscription to the Fund. *Mr. Gragnani* explained the present status of this problem and *Mr. Carli* commented that this was a problem for the appropriate ministers. He stated that he would lend his best efforts toward its prompt solution.

Mr. Merwin thanked *Mr. Carli* for his very interesting and helpful comments.

ITALIAN CONSULTATIONS 1958¹²²

Meeting with Mr. Donato Menichella, Governor of the Bank of Italy
February 1, 1958

Present:

Representatives of Italy:

Mr. Donato Menichella, Mr. Salvatore Guidotti, Mr. Francesco Masera, Mr. Mario Ercolani

Fund representatives:

Mr. Charles L. Merwin, Mr. Roland Kalivoda, Mr. Aldo Guetta

Observer:

Mr. Carlo Gragnani

Governor Menichella thanked the mission for coming to Rome for the consultations, and said he would be ready to answer any question which were asked of him. *Mr. Merwin* thanked the Governor for the kind reception the mission had found in Rome. He gave him a brief summary of the discussion so far held, and expressed thanks for the helpful treatment they had been accorded everywhere. He observed that one of the things that had impressed him was the widespread optimism among the officials concerning the future outlook of the Italian economy, in view of the coming into effect of the Common Market and the signs of levelling off in demand abroad.

The Governor said that in his opinion the recent trend in money supply could be considered as normal. In 1957 note circulation rose by Lit 95 billion. This figure was the combination of a decrease of Lit 102 billion from January to November 1957 and an increase of Lit 197 billion in December 1957. This trend was to a large extent the same as that followed in 1956 when the December increase amounted to Lit 198 billion. The sharp increase in the month of December is of a seasonal character and is to a large extent offset in the following January. Comparing the change during January 1957 with that during January 1958, he noted that trends have also been very similar. In both years circulation was reduced by about Lit 165 billion. Turning to the money supply as a whole (i.e. including bank money), he noted the situation was slightly different. While in January 1957 the government had launched an issue of nine-year Treasury bonds for 100 billion, thereby reducing bank liquidity by that amount, it had expressed the intention not to repeat such operations in 1958. Therefore, other things being equal, bank liquidity could well be larger in early 1958 than it was

¹²² AIME, CF, C/Italy/420.1, 1958 Consultations, Meeting with Mr. Donato Menichella, Governor of the Bank of Italy.

in early 1957. He thought, however, that at present this would not result in an undue credit expansion, and gave certain indications tending to prove this point. Advances to commercial banks by the Bank of Italy, which in January 1957 had been Lit 70 billion, fell to Lit 52 billion in January 1958. Rediscounts of commercial bills by the Bank of Italy, which in 1957 had been Lit 404 billion fell to Lit 392 in January 1958. Moreover the amount of cash deposited at the Bank of Italy by commercial banks under the reserve requirement regulations in January 1958 (Lit 101 billion) suggested that the commercial banks had carried out their obligations in cash rather than in Treasury bonds. This suggests that the banks themselves do not expect an increase in the public demand for credit in the near future and is equivalent to a measure of self-sterilization. This opinion was substantiated even more by the fact that Italian commercial banks usually do not keep one to three-month Treasury bonds but rather eight to ten-month Treasury bonds in order to get more income. On the whole, therefore, the Governor was confident that the excess of liquidity created by the fact that the government was not going to float an issue of nine-year Treasury bonds in 1958 was offset by measures taken by commercial banks themselves. He hastened to add, however, that, should bank liquidity appear to increase too much, the Bank of Italy had the necessary tools to reduce it, and he would not hesitate to use them. The first tool was related to the UIC. Governor Menichella mentioned that, in recent years, the Bank of Italy had authorised commercial banks to grant Italian importers loans in foreign currency arising from their short-term foreign exchange liabilities. This has caused a lesser demand for official foreign-exchange reserves and to that extent has not been a contradictory factor on the money supply. He pointed out that, by restricting these facilities, he could on very short notice bring about a substantial reduction in liquidity. He thought, however, that such a measure would not be necessary.

Governor Menichella also noted that recently there had been less demand for inflationary financing by the public sector; while in January 1957 the Treasury drew Lit 22 billion from its current account at the Bank of Italy, these drawings amounted to only about Lit 3 billion in January 1958.

He noted that, since 1952, there had been a very steady trend in credit development in Italy. Money created by commercial banks has been of the order of Lit 500-600 billion per year, and experience had shown that this permitted an increase in national income of about 5-5.5 per cent per year. He thought that this could be used as a satisfactory yardstick for money expansion in a climate of stability, taking into account local savings habits. Governor Menichella provided another set of figures to show that savings had developed by about the same amount in the period October 1955-September 1956 and October 1956-September 1957 (the latest figures available). He noted also that, for a few years, the increase in savings has been around Lit 1000 billion per year. It had been possible to achieve a yearly increase in income of the order of 5-6 per cent, and he did not see any reason why, provided no expected non monetary factors should arise, this trend

could not continue. Of course, he realized that factors, such as a recession abroad or Italy's participation in the Common Market, could create difficult problems, but he felt confident that the monetary authorities could cope with them.

Turning to the balance of payments he remarked that, although it appeared to be fairly good, it gave rise to some apprehension for the future. In his opinion the \$ 260 million increase in reserves which took place in 1957 was entirely due to exceptional or non-recurrent factors:

1. Exports by the government of surplus stocks of wheat and sugar, at a loss, totalled about \$ 90 million;
2. The use of short-term liabilities of commercial banks for the financing of imports totalled about \$ 50 million;
3. About \$ 48 million loans were disbursed by the IBRD, covering the third and last payment of a \$ 200 million loan.
4. \$ 76 million worth of U.S. agricultural surplus was received;
5. Off-shore procurement totalled \$ 70 million. This will completely disappear in 1959.

If the entire inflow of capital and foreign donations was not taken into account there would have been a balance of payments deficit of some \$ 180 million in 1957. This, of course, was an extremely pessimistic assumption. One could rely on a certain amount of investment and on a certain amount of aid, but he felt that a reasonable figure would be of the order of magnitude of \$ 100 million. As far as the prospects for the current items of the balance of payments were concerned, he felt that income from tourism would increase, and that the reduction in freight rates was on the whole not too serious for Italy; but he thought that, in view of the recession abroad, exports – in particular those of iron and steel and mechanical products – could be adversely affected. On the whole, while not being pessimistic, he was not very optimistic. He felt that the Italian balance of payments was still vulnerable, and he considered that the increase in reserves which Italy experienced in 1957 was absolutely exceptional. He was of the opinion that in future years Italy would either carry very small surpluses or deficits.

This led him to the question of the adequacy of reserves. In view of the balance of payments forecast referred to above, he thought that at the present Italian reserves were large enough to cope with the minor fluctuations expected.

Mr. Merwin thanked the Governor very much for his clear and comprehensive resumé of the economic situation and added that he had only two further question to raise: one was the payment of the subscription and the other was the establishment of a par value.

As far as the payment of subscription was concerned, the Governor said that there should not be too many difficulties. So far the Minister of the Treasury had been extremely busy with the budget presentation, but he felt that in a short

time he would find some time to overcome the remaining small administrative difficulties for the payment of the gold tranche. He was, however, not able to give the same assurance on the payment of the local currency subscription, because there were still some political difficulties to be overcome, but he hoped these could be resolved satisfactorily.

Concerning the par value, the Governor said he realised that failure to declare a par value was on the whole more harmful than beneficial for Italy in its relations with the International Monetary Fund, and he had seriously weighed the pros and cons of the situation. He still was of the opinion that they should not take this step at the present time. The Italian public believed that the dollar quotation was, in fact, the result of a free-market mechanism. He felt that if the government were to set out a fixed par value, there would arise a domestic agitation among various vested interests for preferential treatment in the determination of the rate of exchange, and he considered this should be avoided.



