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BRUSSELS FINANCIAL CONFERENCE 1920

# THE RECOMMENDATIONS

AND THEIR

# APPLICATION

A Review after Two Years

VOLUME II

# ITALY

PRICE 2s.

ECONOMIC AND FINANCE SECTION

December 1922



BRUSSELS FINANCIAL CONFERENCE 1920

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AND THEIR APPLICATION





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# INTERNATIONAL FINANCIAL CONFERENCE, BRUSSELS (1920).

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## RESOLUTIONS

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### I. — RESOLUTIONS PROPOSED BY THE COMMISSION ON PUBLIC FINANCE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE

#### I.

Thirty-nine nations have in turn placed before the International Financial Conference a statement of their financial position. The examination of these statements brings out the extreme gravity of the general situation of public finance throughout the world, and particularly in Europe. Their import may be summed up in the statement that three out of every four of the countries represented at this Conference, and eleven out of twelve of the European countries, anticipate a Budget deficit in the present year. Public opinion is largely responsible for this situation. The close connection between these Budget deficits and the cost of living, which is causing such suffering and unrest throughout the world, is far from being grasped. Nearly every Government is being pressed to incur fresh expenditure; largely on palliatives which aggravate the very evils against which they are directed. The first step is to bring public opinion in every country to realise the essential facts of the situation and particularly the need for re-establishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.

#### II.

Public attention should be especially drawn to the fact that the reduction of prices and the restoration of prosperity is dependent on the increase of production, and that the continual excess of Government expenditure over revenue represented by Budget deficits is one of the most serious obstacles to such increase of production, as it must sooner or later involve the following consequences:

- (a) Further inflation of credit and currency.
- (b) A further depreciation in the purchasing power of the domestic currency, and a still greater instability of the foreign exchanges.
- (c) A further rise in prices and in the cost of living.

The country which accepts the policy of Budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great.

#### III.

It is therefore imperative that every Government should, as the first social and financial reform, on which all others depend:

- (a) Restrict its ordinary recurrent expenditure, including the service of the debt to such an amount as can be covered by its ordinary revenue.

- (b) Rigidly reducing all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.
- (c) Abandon all unproductive extraordinary expenditure.
- (d) Restrict even productive extraordinary expenditure to the lowest possible amount.

#### IV.

The Supreme Council of the Allied Powers in its pronouncement on March 8th declared that "Armies should everywhere be reduced to a peace footing, that armaments should be limited to the lowest possible figure compatible with national security and that the League of Nations should be invited to consider, as soon as possible, proposals to this end." The statements presented to the Conference show that, on an average, some 20 per cent, of the national expenditure is still being devoted to the maintenance of armaments and the preparations for war. The Conference desires to affirm with the utmost emphasis that the world cannot afford this expenditure. Only by a frank policy of mutual co-operation can the nations hope to regain their old prosperity; and in order to secure that result the whole resources of each country must be devoted to strictly productive purposes.

The Conference accordingly recommends most earnestly to the Council of the League of Nations the desirability of conferring at once with the several Governments concerned, with a view to securing a general and agreed reduction of the crushing burden which, on their existing scale, armaments still impose on the impoverished peoples of the world, sapping their resources and imperilling their recovery from the ravages of war. The Conference hopes that the Assembly of the League which is about to meet will take energetic action to this end.

#### V.

While recognising the practical difficulties in the way of immediate action in all cases, the Conference considers that every Government should abandon at the earliest practicable date all uneconomical and artificial measures which conceal from the people the true economic situation; such measures include:

- (a) The artificial cheapening of bread and other foodstuffs, and of coal and other materials by selling them below cost price to the public, and the provision of unemployment doles of such a character as to demoralise instead of encouraging industry.
- (b) The maintenance of railway fares, postal rates and charges for other government services on a basis which is insufficient to cover the cost of the services given, including annual charges on capital account.

#### VI.

In so far as, after every effort has been made, it is impossible to cut down expenditure within the limits of existing revenues, fresh taxation must be imposed to meet the deficit and this process must be ruthlessly continued until the revenue is at least sufficient to meet the full amount of the recurrent ordinary expenditure. The Conference considers that the relative advantages of the various possible means of increasing the national revenue, whether by direct or indirect taxation or by a capital levy (to be devoted to the repayment of debt), depend upon the special economic conditions obtaining in each country, and that in consequence each country must decide for itself on the methods which are best suited to its own internal economy.

#### VII.

If the above principles are accepted and applied, loans will not be required for recurrent ordinary expenditure; borrowing for that purpose must cease. In a number of countries, however, although the ordinary charges can be met from revenue, heavy extraordinary expenditure must at the present time be undertaken on capital account. This applies more especially in the case of those countries devastated during the war, whose reconstruction charges cannot possibly be met from ordinary receipts. The restoration of the devastated areas is of capital importance for the re-establishment of normal economic conditions; and loans for this purpose are not only unavoidable but justifiable. But in view of the shortage of capital it will be difficult to secure the sums required even for this purpose, and only the most urgent schemes should be pressed forward immediately.

#### VIII.

The means by which loans are raised are no less important than the purposes for which they are destined. In future the loans which are required for urgent capital purposes must be met out of the real savings of the

people. But those savings have, as it were, been pledged for many years ahead by the credits created during the war, and the first step to raising fresh money must be to fund the undigested floating obligations with which the markets are burdened. These principles apply both to internal and to external borrowing, and in regard to the latter we suggest that it would be in the general interest for the creditor countries to give such facilities as may be possible to the debtor countries to fund their floating obligations at the earliest possible date.

#### IX.

In order to enlist public interest, it is essential to give the greatest publicity possible to the situation of the public finances of each State.

The Conference is, therefore, of the opinion that the work already accomplished by the Secretariat in its comparative study of public finances should be continued, and it suggests that the Council of the League of Nations should request all its Members and all the nations represented at this Conference to furnish it regularly not only with Budget estimates and final Budget figures, but also with a half-yearly account of actual receipts and expenditure. At the same time, countries should be urged to supply as complete information as is possible on the existing system of taxation, and any suggestions which may appear to each State to be useful for the financial education of the public opinion of the world.

With the aid of the information thus obtained, the League of Nations would be enabled to prepare pamphlets for periodical publication setting out the comparative financial position of the countries of the world, and making clear the various systems of taxation in force.

#### X.

The Conference is of opinion that the strict application of the principles outlined above is the necessary condition for the re-establishment of public finances on a sound basis. A country which does not contrive as soon as possible to attain the execution of these principles is doomed beyond hope of recovery. To enable Governments, however, to give effect to these principles, all classes of the community must contribute their share. Industry must be so organised as to encourage the maximum production on the part of capital and labour, as by such production alone will labour be able to obtain those improved conditions of life which it is the aim of every country to secure for its people. All classes of the population, and particularly the wealthy, must be prepared willingly to accept the charges necessary to remedy the present situation. Above all, to fill up the gap between the supply of and the demand for commodities, it is the duty of every patriotic citizen to practise the strictest possible economy and so to contribute his maximum effort to the common weal. Such private action is the indispensable basis for the fiscal measures required to restore public finances.

## II. — RESOLUTIONS PROPOSED BY THE COMMISSION ON CURRENCY AND EXCHANGE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

The currency of a country, in the sense of the immediate purchasing power of the community, includes (a) the actual legal tender money in existence, and (b) any promises to pay legal tender, *e.g.*, as Bank balances — which are available for ordinary daily transactions.

The currencies of all belligerent, and of many other, countries, though in greatly varying degrees, have since the beginning of the war been expanded artificially, regardless of the usual restraints upon such expansion (to which we refer later) and without any corresponding increase in the real wealth upon which their purchasing power was based; indeed in most cases in spite of a serious reduction in such wealth.

It should be clearly understood that this artificial and unrestrained expansion, or "inflation" as it is called, of the currency or of the titles to immediate purchasing power, does not and cannot add to the total real purchasing power in existence, so that its effect must be to reduce the purchasing power of each unit of the currency. It is, in fact, a form of debasing the currency.

The effect of it has been to intensify, in terms of the *inflated* currencies, the general rise in prices, so that a greater amount of such currency is needed to procure the accustomed supply of goods and services. Where this additional currency was procured by further "inflation" (*i.e.* by printing more paper money or creating fresh credit) there arose what has been called a "vicious spiral" of constantly rising prices and wages and constantly increasing inflation, with the resulting disorganisation of all business, dislocation of the exchanges, a progressive increase in the cost of living, and consequent labour unrest.



I.

Therefore:

*It is of the utmost importance that the growth of inflation should be stopped*, and this, although no doubt very difficult to do immediately in some countries, could quickly be accomplished by (1) abstaining from increasing the currency (in its broadest sense as defined above), and (2) by increasing the real wealth upon which such currency is based.

The cessation of increase in the currency should not be achieved merely by restricting the issue of legal tender. Such a step, if unaccompanied by other measures, would be apt to aggravate the situation by causing a monetary crisis. It is necessary to attack the causes which lead to the necessity for the additional currency.

The chief cause in most countries is that the Governments, finding themselves unable to meet their expenditures out of revenue, have been tempted to resort to the artificial creation of fresh purchasing power, either by the direct issue of additional legal tender money, or more frequently by obtaining — especially from the Banks of Issue, which in some cases are unable and in others unwilling to refuse them — credits which must themselves be satisfied in legal tender money. We say, therefore, that —

II.

*Governments must limit their expenditure to their revenue.* (We are not considering here the finance of reconstructing devastated areas.)

III.

*Banks, and especially Banks of Issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance.*

But the Governments are not the only offenders in this respect; other parties, and especially in some countries the municipalities and other local authorities, have raised excessive credits which in the same way multiply the titles to purchasing power.

Nor will it be sufficient, for the purpose of checking further inflation, that additional issues of legal tender or the granting of additional credits should cease; since the floating debts of Governments and other authorities constitute in themselves a form of potential currency, in that, except in so far as they are constantly renewed, their amount will come to swell the total currency in existence. Consequently —

IV.

*The creation of additional credit should cease and Governments and municipalities should not only not increase their floating debts, but should begin to repay or fund them by degrees.*

In normal times the natural and most effective regulator of the volume and distribution of credit is the rate of interest which the Central Banks of Issue are compelled, in self-preservation and in duty to the community, to raise when credit is unduly expanding. It is true that high money rates would be expensive to Governments which have large floating debts, but we see no reason why the community in its collective capacity (*i.e.*, the Government) should be less subject to the normal measure for restricting credit than the individual members of the community. In some countries, however, the financial machinery has become so abnormal that it may be difficult for such corrective measure to be immediately applied. We recommend, therefore, that :—

V.

*Until credit can be controlled merely by the normal influence of the rate of interest, it should only be granted for real economic needs.*

It is impossible to lay down any rule as to the "proper rates" of discount or interest for different countries. These rates will depend not only on the supply and demand at different times but also on other factors often of a psychological nature. It may, indeed, confidently be said that when once the arbitrary increase of inflation ceases and when the Banks of Issue are able successfully to perform their normal functions, rates will find their own proper level.

The complementary steps for arresting the increase of inflation by increasing the wealth on which the currency is based may be summed up in the words: increased production and decreased consumption.

The most intensive production possible is required in order to make good the waste of war and arrest inflation and thus to reduce the cost of living; yet we are witnessing in many countries production below the normal, together with those frequent strikes which aggravate instead of help to cure the present shortage and

dearness of commodities. When diminution in the Governments' demands frees more credits for trade and for the recuperation of the world, when inflation has ceased and prices cease to rise, and when the general unsettlement caused by the war subsides, it is probable that great improvement will be seen in productive activity. Yet, in our opinion, the production of wealth is in many countries suffering from a cause which it is more directly in the power of Governments to remove, viz., the control in various forms which was often imposed by them as a war measure and has not yet been completely relaxed. In some cases, business has even been taken by Governments out of the hands of the private trader, whose enterprise and experience are a far more potent instrument for the recuperation of the country.

Another urgent need is the freest possible international exchange of commodities. With this another Commission will deal, but we feel that our recommendations here on inflation would not be complete without adding that —

VI.

*Commerce should as soon as possible be freed from control, and impediments to international trade removed.*

Equally urgent is the necessity for decreased consumption in an impoverished world where so much has been impaired. It is therefore specially important at present that both on public and private account and not only in impoverished countries, but in every part of the world —

VII.

*All superfluous expenditure should be avoided.*

To attain this end, the enlightenment of public opinion is the most powerful lever. If the wise control of credit brings dear money, this result will in itself help to promote economy.

We pass now from inflation and its remedies to the other points submitted to us.

Without entering into the question whether gold is or is not the ideal common standard of value, we consider it most important that the world should have some common standard, and that, as gold is to-day the nominal standard of the civilised world —

VIII.

*It is highly desirable that the countries which have lapsed from an effective gold standard should return thereto.*

It is impossible to say how or when all the older countries would be able to return to their former measure of effective gold standard or how long it would take the newly formed countries to establish such a standard. But in our opinion —

IX.

*It is useless to attempt to fix the ratio of existing fiduciary currencies to their nominal gold value; as, unless the condition of the country concerned were sufficiently favourable to make the fixing of such ratio unnecessary, it could not be maintained.*

The reversion to, or establishment of, an effective gold standard would in many cases demand enormous deflation and it is certain that such —

X.

*Deflation, if and when undertaken, must be carried out gradually and with great caution; otherwise the disturbance to trade and credit might prove disastrous.*

XI.

*We cannot recommend any attempt to stabilise the value of gold and we gravely doubt whether such attempt could succeed; but this question might well be submitted to the Committee to which we refer later, if it should be appointed.*

XII.

*We believe that neither an International Currency nor an International Unit of Account would serve any useful purpose or remove any of the difficulties from which international exchange suffers to-day.*

XIII.

*We can find no justification for supporting the idea that foreign holders of Bank notes or Bank balances should be treated differently from native holders.*

XIV.

*In countries where there is no Central Bank of Issue, one should be established, and if the assistance of foreign capital were required for the promotion of such a Bank, some form of international control might be required.*



XV.

*Attempts to limit fluctuations in exchange by imposing artificial control on exchange operations are futile and mischievous.* In so far as they are effective they falsify the market, tend to remove natural correctives to such fluctuations and interfere with free dealings in forward exchange which are so necessary to enable traders to eliminate from their calculations a margin to cover risk of exchange, which would otherwise contribute to the rise in prices. Moreover, all Government interference with trade, including exchange, tends to impede that improvement of the economic conditions of a country by which alone a healthy and stable exchange can be secured.

We support the suggestion that —

XVI.

*A Committee should be set up* both for continuing the collection of the valuable financial statistics that have been furnished for this Conference and also for the further investigation of currency policy.

III. — RESOLUTIONS PROPOSED BY THE COMMISSION ON INTERNATIONAL TRADE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

I.

The International Financial Conference affirms that the first condition for the resumption of international trade is the restoration of real peace, the conclusion of the wars which are still being waged, and the assured maintenance of peace for the future. The continuance of the atmosphere of war and of preparations for war is fatal to the development of that mutual trust which is essential to the resumption of normal trading relations. The security of internal conditions is scarcely less important, as foreign trade cannot prosper in a country whose internal conditions do not inspire confidence. The Conference trusts that the League of Nations will lose no opportunity to secure the full restoration and continued maintenance of peace.

II.

The International Financial Conference affirms that the improvement of the financial position largely depends on the general restoration as soon as possible of good-will between the various nations; and in particular it endorses the declaration of the Supreme Council of the 8th March last "that the States which have been created or enlarged as a result of the war should at once re-establish full and friendly co-operation, and arrange for the unrestricted interchange of commodities in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers."

III.

The Conference recommends that, within such limits and at such time as may appear possible, each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on, and discriminations of price against, external trade.

IV.

The International Financial Conference expresses its conviction that the instability of the exchanges constitutes a great hindrance to the resumption of normal international trade.

V.

The International Financial Conference would welcome any action which can be taken by the League of Nations to enable the countries which under present conditions cannot purchase the necessary supplies for their reconstruction temporarily to obtain commercial credits on an approved basis for this purpose.

VI.

The International Financial Conference expresses the conviction that the repair, improvement, and economical use of the transport systems of the world, and particularly of countries affected by the war, are of vital importance to the restoration of international trade.

IV. — RESOLUTIONS PROPOSED BY THE COMMISSION ON INTERNATIONAL CREDITS AND  
ADOPTED UNANIMOUSLY BY THE CONFERENCE.

I.

The Conference recognises in the first place that the difficulties which at present lie in the way of international credit operations arise almost exclusively out of the disturbance caused by the war, and that the normal working of financial markets cannot be completely re-established unless peaceful relations are restored between all peoples and the outstanding financial questions resulting from the war are made the subject of a definite settlement which is put into execution.

II.

The Conference is moreover of opinion that the revival of credit requires as primary conditions the restoration of order in public finance, the cessation of inflation, the purging of currencies, and the freedom of commercial transactions. The resolutions of the Commission on International Credits are therefore based on the resolutions of the other Commissions.

III.

The Conference recognises, however, that this general improvement in the situation requires a considerable period of time, and that in present circumstances it is not possible for certain countries to restore their economic activity without assistance from abroad. This assistance is required for periods which exceed the normal term of commercial operations.

IV.

The Conference is of opinion that in principle the resources out of which this assistance is to be provided should be found from the savings of the lending countries and must not result in undue increase of the fiduciary circulation — that is to say, in the creation or extension of a disproportion between means of payment and the genuine requirements of business.

V.

The Conference believes, on the other hand, that this assistance can only be effectively accorded to countries which are prepared to assist one another in the restoration of economic life, and to make every effort to bring about within their own frontiers the sincere collaboration of all groups of citizens and to secure conditions which give to work and thrift liberty to produce their full results.

VI.

The Conference does not believe that, apart from particular decisions dictated by national interests or by considerations of humanity, credits should be accorded directly by Governments.

VII.

It appears to the Conference that one of the chief obstacles to the granting of credits is the absence in borrowing countries of sufficient security for ultimate repayment. The Conference therefore studied with attention in the light of the general considerations enumerated above, all the proposals presented with a view to creating guarantees which would provide satisfactory security for exporters.

The Conference has been forced to recognise that no single system could by itself suffice to provide for the many different needs of the various countries, and that it is necessary to indicate a series of measures sufficiently elastic to be adapted afterwards to every variety of circumstances.

For these reasons the Conference decided to make the following recommendations:

VIII.

An international organisation should be formed and placed at the disposal of States desiring to have resort to credit for the purpose of paying for their essential imports. These States would then notify the assets which they are prepared to pledge as security for the sake of obtaining credit, and would come to an understanding with the international organisation as to the conditions under which these assets would be administered.

The bonds issued against this guarantee would be used as collateral for credits intended to cover the cost of commodities.

A plan based upon these principles is developed in the Annex. It has been devised to enable States to facilitate the obtaining of commercial credits by their nationals. It is easy to see that the scheme is susceptible of development in various directions, and that some of its provisions might be adapted so as to facilitate the extension of credit direct to public corporations.

A Committee of financiers and business men should be nominated forthwith by the Council of the League of Nations for the purpose of defining the measures necessary to give practical effect to this proposal.

#### IX.

It has been represented to the Conference that more complete results might be achieved if the bonds used as collateral were to carry some international guarantee.

The Conference sees no objection to the further consideration of this proposal. The Committee referred to in paragraph VIII above might usefully consider the conditions under which it could be applied.

#### X.

It has also been represented to the Conference that an extension on international lines of the existing system of export credit insurance would in many instances be of great value in developing trade with countries where political and social conditions give rise to an anxiety which is often exaggerated by exporters. The Conference believes that an extension of this kind is worthy of consideration, and that it should be examined in detail by experts.

#### XI.

The attention of the Conference has been called to the present system of "finishing credits," that is to say, of credits under which a lien in favour of the exporter or a banker is maintained on the raw material in all its different stages and upon the proceeds of the manufactured article. This system has suffered greatly owing to the lack, in many countries, of sufficient legal protection for the exporter throughout the various stages of importation, manufacture, re-exportation and sale. The Conference would suggest that the Council be recommended to draw the attention of the different Governments to this question, and to summon an advisory body of legal experts and business men to specify the legislative action which it would be desirable to take in order to attain the desired object in each of the countries concerned.

#### XII.

Apart from the above-mentioned proposals which the Conference recommends the League of Nations to adopt and if possible to apply in practice, the Conference believes that the activities of the League might usefully be directed towards promoting certain reforms, and collecting the relevant information required to facilitate credit operations. In this connection the Conference considers it well to draw attention to the advantages of making progress under each of the following heads:

- (1) Unification of the laws relating to bills of exchange and bills of lading;
- (2) The reciprocal treatment of the branches of foreign banks in different countries;
- (3) The publication of financial information in a clear, comparative form;
- (4) The examination of claims by the holders of bonds the interest on which is in arrear;
- (5) An international understanding on the subject of lost, stolen or destroyed securities;
- (6) The establishment of an international clearing house;
- (7) An international understanding which, while ensuring the due payment by everyone of his full share of taxation, would avoid the imposition of double taxation which is at present an obstacle to the placing of investments abroad.

#### XIII.

During the course of its deliberations the Conference could not fail to be impressed by the fact that all, or almost all, of the many proposals submitted for its consideration require at some stage the active intervention of the League of Nations. The Conference is unanimously in sympathy with this tendency and believes that it is desirable to extend to the problems of finance that international co-operation which the League of Nations has inaugurated and which it is attempting to promote in order to improve the general situation and maintain the peace of the world.

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ANNEX.

1. In order that impoverished nations, which under present circumstances are unable to obtain accommodation on reasonable terms in the open market, may be able to command the confidence necessary to attract funds for the financing of their essential imports, an international commission shall be constituted under the auspices of the League of Nations.

2. The commission shall consist of bankers and business men of international repute, appointed by the Council of the League of Nations.

3. The commission shall have the power to appoint sub-commissions and to devolve upon them the exercise of its authority in participating countries or in groups of participating countries.

4. The Governments of countries desiring to participate shall notify to the commission what specific assets they are prepared to assign as security for commercial credits to be granted by the nationals of exporting countries.

5. The commission, after examination of these assets, shall of its own authority determine the gold value of the credits which it would approve against the security of these assets.

6. The participating Government shall then be authorised to prepare bonds to the gold value approved by the commission, each in one specific currency to be determined on the issue of the bond.

7. The date of maturity and the rate of interest to be borne by these bonds shall be determined by the participating Government in agreement with the commission.

8. The service of these bonds shall be secured out of the revenue of the assigned assets.

9. The assigned assets shall in the first instance be administered by the participating Government or by the international commission as that commission may in each case determine.

10. The commission shall at any time have the right of making direct representations to the Council of the League of Nations as to the desirability of transferring the administration of the assigned assets either from the commission to the participating Government or from the participating Government to the commission.

11. The decision of the Council of the League of Nations on this question shall be binding.

12. After the preparation of these bonds, the participating Government shall have the right to loan the bonds to its own nationals, for use by them as collateral security for importations.

13. The bonds shall be made out in such currencies and in such denominations as are applicable to the particular transaction in respect of which they are issued.

14. The participating Government shall be free to take or not to take security for the loan of these bonds from the nationals to whom they are lent.

15. The maturity and the rate of interest of the loan of the bonds shall be fixed by agreement between the participating Government and the borrower of the bonds; they need not be the same as the maturity and the rate of interest of the bonds themselves.

16. When making application to his Government for a loan of these bonds, the importer must furnish proof that he has previously obtained from the international commission express permission to enter into the transaction for which the bonds are to be given as collateral.

17. Each bond, before it is handed over by the participating Government to the importer, shall be countersigned by the commission in proof of registration.

18. Having obtained the consent of the commission and received from them the countersigned bonds, the importer will pledge these bonds to the exporter in a foreign country for the period of the transaction.

19. The exporter will return to him on their due dates the coupons of the pledged bonds, and the bonds themselves on the completion of the transaction.

20. On receipt of the coupons and the bonds respectively, the importer will return them to his Government.

21. Bonds returned to the participating Government shall be cancelled and may subsequently be replaced by other bonds, either in the same or in a different currency, up to an equivalent amount.

22. The exporter, or if he has pledged the bonds the institution with which he has repledged them acting on his behalf, would be free, in the event of the importer not fulfilling the terms of his contract, to hold until maturity the bonds given as collateral by the importer, or to sell them in accordance with the custom in his country in case of default.

23. In the second alternative, an option of repurchasing the bonds direct must first be given for a short period to the Government which issued them.

24. If a sale is resorted to and results in a surplus beyond what is necessary to cover the claims of the exporter upon the importer, the exporter shall be held accountable for that surplus to the Government which issues the bonds.

25. The revenues from the assigned assets shall be applied as follows to the service of the bonds.

26. Out of these revenues, the commission or the participating Government, as the case may be, shall purchase foreign currencies sufficient to meet at their due date the coupons on all bonds any time outstanding in the different foreign currencies.

27. In addition they shall establish abroad in the appropriate currencies a sinking fund calculated to redeem at maturity 10 % of the bonds outstanding in each of the different countries.

28. Further, in addition to the amounts provided for payment of coupons and for the endowment of the sinking fund, they shall establish out of the assigned revenues a special reserve in one or more foreign currencies for the redemption of bonds sold in accordance with paragraph 22.

29. The amount to be set aside for the special reserve shall in each case be determined by the commission.

30. Any surplus remaining at the end of each year after the provision of these services shall be at the free disposal of the participating Government.

31. A participating Government shall have the right to offer its own bonds as collateral for credits obtained for the purpose of importations on Government account. The previous assent of the commission will in these cases also be required for the particular importations desired by the participating Government.

32. If a participating Government which has been in control of its assigned revenues should fail to fulfil its obligations, the exporter concerned will notify the commission and the commission will apply to the Council of the League of Nations for the transfer of the management of the assigned revenues to the commission.

33. The consent of the commission is necessary whenever bonds secured on the assigned assets are given as collateral and shall as a rule be accorded only for the import of raw materials and primary necessities.

34. The commission may, however, at its discretion, sanction in advance the importation of specified quantities of such goods.

35. Even in the case of imports under such a general sanction, a notification of the particular transaction must be registered with the commission.

36. The assent of the commission must also be obtained in every case to the term of the credit which it is proposed to open.

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## Circular Letter and Annex sent to the Various Governments.

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GENEVA, March 20th, 1922.

Sir,

The Second Assembly of the League of Nations passed the following Resolution:—

“The Assembly, having had brought to its notice the continuing gravity of the exchange crisis and its dangerous effects upon the economic position and the conditions of labour of the working classes, invites the Provisional Economic and Financial Committee to carry on urgently its enquiries from various Governments as to the measures taken to ensure the application of the resolutions of the Brussels Conference. The Assembly further invites the Committee to investigate, in accordance with the Governments’ suggestions and as speedily as may be, all practical proposals which may be made for the completest possible application of these resolutions.”

The Financial Committee, which was given the task of putting this decision into force, ventures to apply to you, in view of the especial knowledge that you have of the conditions of . . . . ., and has the honour to ask you if you would be so good as to collect the information required to meet the wishes of the Assembly. A note is attached (*see pages 18 and 19*) describing the scope of the enquiry with a view to defining the extent of the investigations, and to ensuring uniformity in the replies to be received from various countries.

It is perhaps scarcely necessary to add that, if you are acquainted with any special statements or summaries dealing with the financial, monetary or commercial policy of the country which forms the subject of your enquiry, prepared either by the Government or by some important body qualified to do so, information of this nature would be of the greatest interest to the Committee.

The Secretariat of the League of Nations at Geneva (Economic and Financial Section) has been instructed to act as a centre for receiving replies to this enquiry. The Secretariat would be grateful if, in order to expedite the work, you would be good enough to forward the data concerning some section (for instance, the monetary policy), as soon as they are collected, without necessarily waiting for the full information relative to all of the three sections of which the enquiry consists.

As the Financial Committee will require some considerable time in which to prepare a general report for the next Assembly, it will be glad if the full answers to the enquiry could be sent in before the end of May.

I have the honour to be, Sir, your obedient servant,

(Signed) ERIC DRUMMOND,  
Secretary-General.

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## ANNEX TO THE CIRCULAR LETTER.

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### *Provisional Economic and Financial Committee.*

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## ENQUIRY INTO THE PUTTING INTO FORCE OF THE PRINCIPLES OF THE BRUSSELS CONFERENCE.

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The recommendations of the Brussels Conference can be brought into the following categories:

- I. Budgetary measures.
- II. Monetary measures.
- III. Commercial measures.

With regard to the political measures recommended by the Brussels Conference, the Financial Committee, while recognising itself as not, strictly speaking, competent to deal with them, is nevertheless of opinion that it would be of value to draw attention to the desirability of obtaining information on this point. In fact, certain political measures have a considerable effect in matters affecting finance, currency and commerce.

It is thought that uniformity of method could best be obtained were the Memoranda to be divided into chapters corresponding to the foregoing three categories and were the sections of each chapter divided in the manner indicated below, corresponding to the Resolutions actually passed.

### I. BUDGETARY MEASURES.

A summary of budget development since the summer of 1920 with special regard to:

1. How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue (Art. III, P. F. <sup>1</sup>).
2. Whether expenditure on armaments has been reduced (Art. III, P. F.).
3. The extent of unproductive extraordinary expenditure (Art. III, P. F.).
4. The extent of productive extraordinary expenditure (Art. III, P. F.).

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<sup>1</sup> The initials refer to the Resolutions of the Brussels Conference on Public Finance, Currency and Exchange and International Trade (see page 7).

5. The policy of the Governments in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.
6. The existence of subsidies on bread and other foodstuffs, coal and other materials (Art. V, P. F.).
7. Charges for unemployment (Art. V, P. F.).
8. The financial position of public undertakings: Railways, posts, telegraphs, telephones, etc. (Art. V, P. F.).
9. The introduction of new taxation (Art. VI, P. F.).
10. Methods of raising money by loans, whether by (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation (Art. VIII, P. F.).
11. The influence of foreign loans and trade balances.
12. The effect of local and provincial finance on the budget of the State.

## II. MONETARY MEASURES.

A summary of monetary development since the summer of 1920 with special regard to:

1. The increase or decrease of the note circulation (Art. I, C. E.).
2. The influence of Government expenditure on currency (Art. II, C. E.).
3. The repayment of floating debt and the effects thereof (Art. IV, C. E.).
4. The connection between the Government and the central bank of issue (Arts. III, IV and XIV, C. E.).
5. The restriction of granting of credits either by means of the rate of interest or in other ways (Arts. V, VI and VII, C. E.).
6. The existence of any artificial control of exchange with a description of its character and its effects. Are foreign holders of bank-notes and credit balances treated differently from native holders? (Arts. XIII, XIV and XV, C. E.).
7. The causes and effects of deflation if existing (Art. X, C. E.).

## III. COMMERCIAL POLICY.

A summary of commercial development since the summer of 1920 with special regard to:

1. The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc. (Arts. I, II and III, I. T.).
  2. The existence (or abolition) of price discrimination against foreign trade (Art. III, I. T.).
  3. The conclusion of (a) commercial conventions; (b) transport conventions (Art. VI, I. T.).
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## COVERING LETTER.

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July 3rd, 1922.

*To the President of the Provisional Economic and Financial Committee,  
League of Nations, Geneva.*

I am sending to the Provisional Economic and Financial Committee of the League of Nations a report upon the application in Italy of the decisions of the International Financial Conference in Brussels, which has been drawn up by Professor Riccardo Bachi. This report contains very full information concerning the economic situation of Italy during the two years 1920-1921.

The analysis of Italian life contained therein shows how in Italy the policy of the Government and the conduct of the whole nation have been in the highest degree in conformity with the principles recommended by the Brussels Conference. Indeed, the efforts which have been made by Italy with a view to economic reconstruction are most noteworthy, in spite of the very grave crisis which has affected the whole world, and which in Italy has caused so great a depression in commerce and industrial activity. These reconstructive efforts are all the more noteworthy, if one takes into consideration the heavy losses and the upheavals which have so gravely affected the life of the country during the five years of war. As Professor Bachi points out, the manifest improvement in the Italian situation at the beginning of 1922 as contrasted with that at the beginning of 1920, must be in part attributed to the spontaneous action of economic forces of reconstruction. In accordance with the principles adopted at Brussels, Italian economic policy has latterly been inspired by the idea of granting the necessary liberty to trade and commerce, diminishing or eliminating the restrictions which were set up during the war period: thus in the course of these two years, there have been gradually eliminated, either wholly or to a great extent, the restrictions and the interferences of the Government in foreign trade, in agricultural and industrial production, in respect of the movement of capital and dealings with foreign securities, in trade in coal and raw materials, in respect of the mercantile marine, in trade in food-stuffs, etc. In these respects, and particularly as regards international exchanges, Italy's policy has been inspired by more liberal principles than those of other countries.

In this movement for the restoration of Italian economic life, the change which has taken place in the collective psychology of the people is of great importance when contrasted with the excitement prevailing in the times immediately following the war. Thus, the economic and political situation has regained those characteristics of stability which are the necessary prelude to a vigorous economic activity. The principal factor in this national recovery is the effort which the Italian people has made to restore State finances. The very numerous statistics collected in the report show the sharp increase in taxation, an increase perhaps unnecessarily great, which may render necessary some revision of the financial legislation: a very large portion (not yet determinable in the present state of economic statistics) of the national income is absorbed by either central and local taxation. Thus, the budgetary position has been improving



gradually. One factor in this improvement which is by no means negligible is the greater severity which has been adopted in matters of expenditure, particularly the reduction of military expenditure, the abolition of food control, of the official price for bread and of the Government direction of the mercantile marine, etc. The work of reorganising certain public services and the systematisation of the bureaucracy still present great difficulty; the working of certain public services, and especially the railways and posts, still results in considerable deficits: in this connection, however, it is a question of administrative and political difficulties, which are affecting many countries and not merely Italy; their solution will require further careful consideration on the part of the Government. The figures set out in the report show during the last years and especially for the immediate past, a very distinct tendency to diminish the deficit in the Budget; it is hoped that further efforts toward economy in expenditure will succeed in bringing about the desired equilibrium at no far distant date.

A factor of great importance in the restoration of Italian economic life has been the cessation of monetary inflation; for a long time now the State has avoided all further issues of notes, and with the cessation of food and industrial control, it has been able to withdraw a proportion of the notes previously issued; the monetary stability which has thus been realised has brought about a certain stability in the level of prices and has also reduced the variability of the exchanges.

I hope that the publication of these statistics will serve, not only to throw light on the situation in Italy, but also to demonstrate in what directions action should be taken to bring about an improvement in the general situation.

I have the honour to be, etc.

(Signed) G. BIANCHINI.

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REPORT  
ON THE  
APPLICATION IN ITALY OF THE RESOLUTIONS  
OF THE  
International Financial Conference held in Brussels in 1920

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Introduction.

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ECONOMIC SITUATION IN ITALY IN 1920-1921.

*Economic changes: abolition of war restrictions.*

A comparison between the present report and the one presented to the Brussels Conference reveals the extensive changes which have taken place in the economic and financial situation of Italy during the short period of two years. These changes correspond, in a large measure, to the tendencies of general and economic policy embodied in the definite programme of reconstruction which was drawn up at Brussels. Although the improvement in the situation may be ascribed in part to the wisdom and foresight of the Government, it is due, in a far larger measure, to the spontaneous action of recuperative economic forces. The experience of recent years has shown that the State, so far from increasing its control over the commercial life of the country, should abstain altogether from intervention; the last relics of "war restrictions" have disappeared in most branches of trade, and the action of the State has assumed a negative rather than a positive form, thus leaving freer play to natural forces and facilitating the restoration of a more stable condition of political, social and economic equilibrium.

*Changes in the political and social situation.*

The changes which have taken place in the economic situation of Italy during these two years correspond to the changes in the political and social conditions of the country. During

the first part of 1920 the national life still bore traces of the unstable social situation; the psychology of the community was still entirely abnormal. The tremendous events of the preceding years kept men's minds in a certain state of agitation; there was a desire for change, an acute anxiety regarding the future, due to the false perspective in which political events in other countries were viewed. The frequent strikes for political purposes which occurred in the years 1919 and 1920, sometimes in connection with events of trifling importance, were symptomatic of this state of mind.

The economic phenomena caused by the war had brought about very considerable changes in the distribution of wealth, partly owing to the depreciation of the currency and partly owing to changes in the rates of production and consumption. In 1919 and 1920, apart from the political strikes referred to above, there was a whole series of economic strikes — which furnished the clearest evidence of the movement towards a redistribution of income on lines corresponding to the change in the level of prices.

During these two years violent conflicts took place between the employer class and the working class, culminating in a new situation in the labour world, based on the increased power of the professional associations of both classes and an enormous development of the system of collective agreements. The working class embarked on a highly aggressive policy in order to obtain better conditions of labour under the impression, perhaps exaggerated, that enormous industrial profits had been gained during the war and the first months of peace.

The victories of the workers were in some cases aided by this political situation. The increased cost of labour contributed in a large degree to the general increase in the cost of production, a result also due to the conditions in which industries had developed and expanded during the last few years; for it must be remembered that many of the industrial enterprises which came into being or expanded during or after the war had done so with extraordinary rapidity, and had adopted technical methods which were not always suited to their needs.

These conditions of instability and social conflict were largely instrumental in impelling the adoption in the political economy of the State during the years 1919-1920 — particularly in financial affairs — of principles which contrary to the recommendations of the Brussels Conference. Thus, during these two years, various branches of the Government's activities continued to be governed by the ideas which had prevailed during the war. Military expenditure was still considerable and was due to other causes besides the winding up of departments and to the liquidation of liabilities previously incurred. The State continued to intervene in questions of food-supply, and goods were often sold at prices which for political reasons were fixed below cost. The result was a large financial deficit; other serious deficits were caused by the State administration of commerce and industry and especially by the still extensive Government control of maritime transport.

Moreover, in view of the difficult social conditions and the disturbed economic situation, it was not easy to organise immediately a system of sources of revenue capable of producing as large and as rapid a return as was required. Furthermore, during these two years, the State had been compelled, in order to obtain revenue, to have recourse to loans, the result of which had been to increase the already formidable total of the debt. It had also been obliged to have recourse to the issue of notes with its inevitable serious effects on the price of goods and on the foreign exchange — effects which, in their turn, further aggravated the social discontent.

The abnormal development of the conditions of political and economic life was not peculiar to Italy; it appeared in other countries in different degrees — often in a more acute form — during the difficult period after the war.

#### *Gradual reconstruction of the country.*

From the close of the year 1920 and throughout the year 1921 a remarkable and rapid change took place in the conditions under which our national life was developing; there was



increased stability, a diminution of social conflicts and a more settled frame of mind. The general atmosphere being more settled it became possible to carry on economic reconstruction with remarkable rapidity, and the State was able to embark on a policy directed towards the economic re-organisation of the country. The people, aware of the serious difficulties which had to be faced in order to place the public finances on a sound basis, consented to the abolition of State control of the prices of corn and other articles of consumption, and submitted to new and heavy fiscal burdens in addition to those imposed during the war. The nation thus took a definite step towards the attainment of that financial equilibrium which is the essential condition of economic reconstruction, and especially of an improvement in the monetary situation.

### *The economic crisis.*

The economic crisis which in 1920 assumed such an intense form in most countries, appeared somewhat more belatedly in Italy towards the end of that year, and continued to increase without, as in England and the United States, any clear sign of improvement. As elsewhere, this crisis was characterised by a serious disturbance of the equilibrium between consumption and the productive capacity of industrial enterprises. The seriousness of the crisis was accentuated by the mistaken efforts made in certain circles which, shortly after the cessation of hostilities, led to an unforeseen increase in productive capacity, fostered by the belief that a large and continued increase in the rate of consumption would take place. In Italy as in other countries, the results of these erroneous estimates of future requirements became particularly and most intensely evident in the great instrumental industries such as mining, metallurgical engineering machinery and ship-building; the same phenomenon was reproduced in a less obvious and more gradual manner in industries directly producing articles for consumption. The crisis has proved to be very serious in Italy, and appears likely to last a long time by reason of the special economic conditions and particularly on account of the great losses caused by the war and the enormous sacrifices borne by the Italian population during the struggle.

In the following pages we shall examine a few of the features and consequences of the crisis, while considering separately the application of the various principles laid down by the Brussels Conference. We shall note particularly that the crisis has led to a serious depression in certain branches of industry, to increasing unemployment, reduction in working hours, lowering of salaries, decrease in consumption, general diminution in the volume of business, a considerable fall in wholesale prices and, to some extent, of retail prices, also decreased profits, slackening of the circulation of money, a reduction in the circulation of bearer bonds issued by banks, a partial shrinkage of banking business, a reduction of certain branches of foreign trade and a corresponding falling off in the movement of transport, and, finally, an increase in the number of bankruptcies and dishonoured bills. The failure of a large bank and of certain great industrial enterprises are grave, but characteristic, features of the crisis.

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## Part 1.

### FINANCIAL MEASURES

#### GENERAL FINANCIAL CONDITION

##### *General statistical data.*

The financial policy latterly followed, which is based on the principles indicated above, has led to a certain reduction in actual expenditure, and an increase in actual receipts.

##### *Effective expenditure.*

We give below figures showing total actual expenditure (in thousands of lire) for each financial year from 1913-14 to 1920-21 (the figures for this latter year are provisional), and also the sum estimated for the years 1921-22 and 1922-23. We give for each year the figures for the Ministries of Finance, War and Marine.

Year	Total actual expenditure		Expenditure of Ministry of Finance	Expenditure of Ministry of War	Expenditure of Ministry of Marine
	Amount	Relatives figures			
1913-14	2,687,661	100.0	703,651	609,100	309,086
1914-15	5,395,397	200.7	799,933	2,602,729	622,872
1915-16	10,625,242	395.3	970,640	7,587,701	674,309
1916-17	17,595,260	654.7	1,582,037	13,245,226	765,036
1917-18	25,298,807	941.3	2,322,466	17,637,313	1,118,559
1918-19	32,451,576	1,207.4	3,311,914	20,908,359	1,489,705
1919-20	23,093,416	859.2	7,823,865	7,409,617	1,162,397
1920-21 <sup>1</sup>	28,783,488	1,070.9	15,109,213	3,727,481	1,331,850
1921-22 <sup>2</sup>	21,083,545	784.5	9,605,071	2,354,784	874,807
1922-23 <sup>2</sup>	18,525,306	689.3	9,417,900	1,876,549	611,102

In considering these figures it must be borne in mind that, for certain administrative and technical budgetary reasons, the figures for actual expenditure prior to 1920-21 do not comprise

<sup>1</sup> Provisional.

<sup>2</sup> Estimated.



the total amounts expended in those years, as certain large items did not appear in the budget — for example, important items such as food subsidies, fuel and maritime transport. The figures for these various services do not appear in the data indicated above until after 1919-20; this explains the increase in the total expenditure for the financial year 1920-21.

Among the other factors which caused an increase in expenditure for this year, mention must be made of losses on exchange, which amount to about 3 milliards, due to the high rate of exchange and the large payments made abroad. About 1 milliard is due to the deficit in the administration of the railways; 1,360,000,000 for payments to employees, and lastly 600,000,000 for various public works.

Owing to the stricter financial policy which has since been followed, it has been possible to reduce several items of expenditure. Thus the estimated expenditure for the years 1921-22 and 1922-23 is smaller than the previous estimates, although it includes large sums for charges directly due to the war. The liquidation of the food supply organisation and other war services caused heavy charges in the budgets for several years. Owing to the delay in the preparation of final accounts arising out of the war, the figures for public expenditure during these financial years are to a certain extent only approximate. The calculations involved are so complex that it will be difficult, even in the future, to arrive at a total estimate of the cost of the war, quite apart from the difficulty of defining the actual expression "cost of the war" also in a financial sense.

The figures above relating to the sums paid or allocated to the ministries of war and marine since 1920-21, make it clear that expenditure has been brought down to something not very different from pre-war level: when comparing the figures, the change in the purchasing-power of money must be taken into account, and it must also be remembered that in 1920-1921 not only were important pre-existing obligations liquidated, but further, the exceptional political conditions still necessitated the maintenance of an armed force above the normal. Moreover, it should be borne in mind that up to the financial year 1921-1922 certain expenditure for the civil administration of the liberated territories still figured in the military budget, on account of the exceptional conditions subsisting in these territories.

The budget estimates for 1922-1923 anticipate an actual expenditure about seven times as great as in the last pre-war financial year, although expenditure directly caused by the war has practically disappeared. This increase is certainly relatively very considerable, but allowance must be made not only for the reduced purchasing power of money but also for the increase of territory and the numerous disturbances which the war has brought into the social and economic condition of the country, disturbances which, in various ways, result in fresh obligations on the State and fresh charges on the Treasury. It is to be hoped that strict economy and additional reductions in certain public services will enable a still further diminution to be made in the total expenditure. In the meantime the budget for 1922-1923 shows a real improvement on that for 1921-1922. The chief reasons for this improvement are as follows: the deficit in respect of food subsidies, formerly an important item, has been wiped out; expenditure on maritime transport has decreased by 532,000,000 lire owing to the fall in the price of coal; the gradual withdrawal of State control of the mercantile marine, and the return of vessels to private shipowners. Appropriations in the defence budgets were considerably reduced and were based on an army of 175,000 men, though, as regards the navy, the necessities of the new Adriatic services had to be taken into consideration. A cut of 238,000,000 lire has been made in the appropriations for war damages and the restoration of the liberated territories, though even the previous efforts made in this direction had been very considerable. Owing to the payment of arrears, the item of military pensions was reduced by a comparatively small amount (238,000,000 lire): it must, however, be remembered that this item is one of the largest in the budget, amounting as it does to 1,650,000,000 lire. While these items and several others show a reduction of expenditure, many others show an increase. Interest on the public debt — an item which for the financial year 1922-1923 amounts to the enormous figure of 5,198 million lire — shows

a large and ever-growing increase. Large sums are devoted to public works and to the special needs arising from the economic crisis and to the necessary adaptation of the public services to the new conditions of the country.

*Effective revenue.*

Expenditure, although thus considerably reduced, is capable of still further reduction by means of strict economy in the administration of public finance; there may also be anticipated a drop in the price of both goods and labour. However, State expenditure for some long time to come will be much greater than before the world war. This increased expenditure will certainly prove to be one the most serious and lasting consequences of the war, and will impose upon the Italian people heavy and continued sacrifices, as a large proportion of all individual incomes will necessarily be diverted from individual consumption and savings. The great public expenditure in our country is a phenomenon the gravity of which is all the greater in that Italy is, as regards raw material, the least favoured of the great Powers.

In order to meet the enormous expenditure imposed by the war during the difficult years of its duration, it was found necessary — as was the case with the other belligerent States — to resort to financial operations of an extraordinary nature, such as loans of different kinds and the issue of notes. But in Italy, much more than elsewhere, the State did not shrink, even during the war, from very considerably increasing taxation — an increase which has been accentuated since the war — in order to meet an ever-growing proportion of the expenditure out of revenues. It is to be hoped that at no distant date receipts may exactly counterbalance expenditure, and the financial equilibrium be restored.

In the following table we give figures in thousands of lire, showing the total revenue and expenditure for each financial year from 1913-1914 to 1919-1920 (closed accounts), for 1920-21 (provisionally closed accounts), and for 1921-1922 and 1922-1923 (as in the budget estimates). We also give the percentage ratio of revenue to expenditure.

Years	Total Revenue		Total Expenditure		Percentage ratio of revenue to expenditure
	Amount	Index Figure	Amount	Index Figure	
1913-14	2,523,746	100.0	2,687,661	100.0	93.9
1914-15	2,559,959	101.4	5,395,397	200.7	47.4
1915-16	3,733,734	147.9	10,625,242	395.3	31.1
1916-17	5,345,044	211.8	17,595,260	654.7	30.4
1917-18	7,532,766	298.5	25,298,807	941.3	29.8
1918-19	9,675,845	383.4	32,451,576	1,207.4	29.8
1919-20	15,207,489	602.6	23,093,416	859.2	65.9
1920-21 <sup>1</sup>	18,071,000	716.0	28,783,488	1,070.9	62.8
1921-22 <sup>2</sup>	16,977,938	672.7	21,083,545	784.5	80.5
1922-23 <sup>2</sup>	15,763,610	624.6	18,525,306	689.3	85.1

The reservations previously made with regard to these figures must not be forgotten. The table shows a tendency towards the gradual covering of expenditure by revenue.

<sup>1</sup> Provisionally closed accounts.

<sup>2</sup> Budget estimates.



Not only does the financial situation show a gradual improvement, but in addition to the heavy increase in taxation, a remarkable change has also taken place in the manner in which these burdens are distributed among the various classes of taxpayers. In proof of this we give below figures showing, in thousands of lire, the sums yielded by each group of taxes for the financial years from 1913-14 to 1920-21 (the figures for the latter year being provisional) excluding such minor items as revenues from crown lands, returns on public services, repayments and recovery of expenses, receipts derived from dealings in foreign exchange, etc. The data in the following tables refer principally to taxation; in order to show the changes which have taken place in the incidence of taxation during the first and last year under consideration, we give the proportional figures showing the percentage of each group of taxes as compared with the total figure:

Years	Direct taxation on income	Taxes on business transactions, concessions, etc.	Indirect taxation on consumption	Industrial monopolies	Commercial monopolies	Total
1913-14	540,689	293,931	621,310	547,120	—	2,003,050
1914-15	592,448	298,775	461,888	573,273	—	1,926,384
1915-16	720,878	337,906	641,120	700,529	—	2,400,433
1916-17	1,057,930	448,357	922,183	845,996	—	3,274,466
1917-18	1,531,626	588,608	970,470	1,129,575	—	3,220,279
1918-19	2,065,567	813,537	1,033,466	1,521,087	—	5,433,657
1919-20	2,333,771	1,298,335	1,204,912	2,007,805	452,550	7,297,373
1920-21	3,968,362	1,747,900	1,490,247	3,013,484	521,892	10,741,885
<i>Percent.</i>						
1913-14	27.0	14.7	31.0	27.3	—	100.0
1920-21	36.9	16.3	13.9	28.0	4.9	100.0

Between the last pre-war financial year and the year 1920-21 the yield from these taxes has increased fivefold, but also the proportion between the various groups of revenue has greatly changed. The yield from direct taxation on income in particular has increased from 27 % to 37 %, while that from indirect taxes on consumption has fallen from 31 % to 14 %; these changes are evidence of the fact that the Italian system of taxation has assumed a more democratic character. It must also be pointed out that new taxes on business transactions include several stamp duties which are no longer based as formerly on the principle of being special payments for State services rendered to the payer of the tax, but are really luxury taxes (taxes on jewellery, perfumery, bottled wines and liqueurs and other luxuries, tickets for cinematographs and other entertainments, etc.) Some sources of revenue which of late years were included under direct taxation, are of a temporary nature (excess profits duties), but they will be superseded by other large sources of revenue, chiefly by means of a general reform of the income tax.

In spite of the exceptional economic crisis from which the country is suffering so greatly, the yield of taxation during the last few months has shown an upward tendency which augurs well for the restoration of the State finances.

We give below, in thousands of lire, figures showing the yield of the various taxes during the first nine months of the financial year 1921-22 as compared with the first nine months of the year 1920-21, and also the estimates for the whole of the financial year 1921-22:

	Estimates for the whole financial year	Actual Revenue from July to March		Difference
	1921-22	1921-22	1920-21	
Direct taxation on income .	2,794,500	3,243,913	2,366,956	+ 876,958
Stamp duties, taxes on con- cessions and school duties	1,582,500	1,100,019	899,720	+ 200,299
Registration duties and duties on mortgages. . .	926,380	681,392	574,176	+ 107,216
Indirect taxation on con- sumption . . . . .	1,808,280	1,413,044	1,277,223	+ 135,821
Industrial monopolies. . .	2,881,500	2,226,074	2,033,169	+ 192,905
Lotteries . . . . .	100,000	136,340	104,282	+ 32,059
Commercial monopolies . .	247,500	382,112	368,624	+ 13,488
Total . . . . .	10,340,660	9,182,895	7,624,149	+1,588,746

The total revenue up to the end of March 1922 shows an increase of about 1 ½ milliards on the corresponding period of the previous year, and the increase for the whole financial year 1921-22 will probably exceed two milliards. Nevertheless, despite the stricter financial policy adopted, expenditure will still greatly exceed the estimates. As regards expenditure we do not possess any figures which could fairly be compared with the figures for receipts. The figures appearing in the monthly Treasury reports (so far these have appeared up to November, 1921) do not refer to real expenditure, but to money payments, and include not only effective expenditure, but movements of capital also. It would therefore be unfair to draw any conclusions whatever from these figures.

#### INTRODUCTION OF NEW TAXES

*General scope of the new taxes: systematic analysis of the fiscal reforms carried out or contemplated since the beginning of the war.*

After the outbreak of war, numerous measures were taken with a view to increasing the yield of taxation. The following table gives approximate figures showing in thousands of lire, the actual and the estimated yield from new taxes adopted as from October 1914 to the end of November 1921, without taking account of those reforms in taxation which have already been voted, but which for various reasons have not yet been put into force.

Financial year	Lire (ooo,ooo's omitted)
1914-1915	+ 54,187
1915-1916	+ 336,662
1916-1917	+ 927,697
1917-1918	+ 1,753,731
1918-1919	+ 2,739,258
1919-1920	+ 3,793,050
1920-1921	+ 5,657,655
1921-1922	+ 6,874,525
1922-1923	+ 7,195,950



Even if we allow for the depreciation of the currency, the increase in the burden of taxation is undeniably a very large one. During the war and the period immediately following, the policy adopted in respect of increased taxation was necessarily somewhat confused and hasty, and often resulted in rough and ready measures, intended solely to obtain more money, irrespective of whether the nature of the tax itself were reasonable and the incidence equitable. An increase of revenue had to be obtained with the least possible delay, and a well-considered and rational transformation of the system of taxation was not possible. Thus, on many occasions, the hasty expedient was adopted of simply raising the rate of taxation, thereby intensifying the defects of the former system and causing unfair incidence; many measures being of a purely provisional character took no account of sound modern principles of taxation. It was not possible until later to work out a scheme for a more reasoned and general reform of taxation in consonance with the new political, social and economic conditions of the country. These reforms were outlined or effected chiefly during the period to which the present report refers. We will deal with some of the changes in detail:

(a) *Direct taxation.*

In spite of the great difficulty of assessment, especially on account of the absence of data for valuation, and in spite of the possible serious repercussion on national economy, Italy has not hesitated to make an entirely new departure in taxation — *the Capital Levy* — a tax, the application of which is subject to great objections and which has not yet been adopted by any other great State. This tax, which was voted in 1919, has been introduced with a rapidity unexampled, we think, in the history of finance, — so much so that in the financial year 1920-21 it has already produced a revenue of over 452 millions, and during the calendar year 1920 a net yield of 355 millions — a sum notably higher than that estimated. The original scheme for this tax has undergone various changes, and in its present form it differs considerably from the tax originally proposed, the purpose of which was to impose a direct levy on private fortunes, with the object of bringing about an important diminution of the debts contracted by the State as a result of the war. The tax is assessed upon the basis of the property of each taxpayer on January 1st, 1920, estimated according to values prevailing on that date, with certain attenuations. Only estates valued at less than 50,000 lire are exempt from this tax. It is levied on estates at a graduated rate, rising from a minimum of 4 ½ per cent to 50 per cent on estates of not less than 100 millions; the reduction of private fortunes thus effected is very considerable and its extent appears all the more remarkable if we take into account the fact that this levy is made on estates estimated according to the current sale price at the beginning of 1920, that is, before the fall in prices had begun, and before the economic crisis and other factors had led to the depression in the money-market and the fall in the quotations of many securities. The levy is assessed according to the above-mentioned stipulations in one single amount, but it may be paid by the taxpayer in instalments spread over 9 or 19 years according to the proportion of his estate which consists of real property. If payment is made in instalments, the growing purchasing power of money involves a continual increase in the actual value of the sums paid; the valuation of fortunes for levying the first instalment of the tax has hitherto been calculated on provisional estimates based on the returns made by the taxpayers themselves; the revision of these returns by the revenue officials, both as regards the size of estates and their valuation, will very greatly increase the assessment and the yield of the tax. The first returns represented a capital value of only 55 milliards, a figure which was undoubtedly considerably lower than the real value; the revision will greatly increase this figure and appreciably diminish the amount of evasion, particularly in respect of the value of real property; the law lays down strict regulations with regard to this matter in order to fix the actual value of real property at the date to which the tax refers. With a view also to obviating or diminishing evasion in respect of securities which

constitute a large part of the movable property affected by this tax, the Government has adopted the principle of compulsory registration of the holders of these securities whether private or public, with the exception of Treasury bonds and bank deposits. This principle has been hotly disputed and has roused violent opposition, and there is no need to discuss here whether its adoption was opportune; nevertheless, compulsory registration has undoubtedly led to difficulties in credit operations and other transactoins affecting securities. Its application has been delayed and eventually a modification was proposed allowing of the continual use of bearer bonds but stipulating a deduction of a duty of 15 per cent. of the interest thereon. In any case the adoption by Act of Parliament of the compulsory registration and the tax of 15 per cent. already imposed on private securities has had the effect of causing a very large conversion of private securities into registered securities, and also of reducing evasion by means of supplementary returns made for the purpose of the extraordinary capital levy.

The introduction of the capital levy and of the principle of registration of securities has seriously affected the economic life of the country; without expressing an opinion as to the advisability of these measures, they would undeniably appear to correspond, in their general nature, to the rigorous financial policy recommended by the Brussels Conference.

The social considerations which inspired the policy of the capital levy also led the Government to tax profits arising out of the war, more heavily than has been done in any other country — we refer to the *confiscation by the State of war profits*. Carrying to its extreme logical conclusion the principle which during the war gave rise to the special tax on war profits, soon after the close of hostilities, the Government decreed that the Treasury should appropriate the whole of the profits themselves, that is to say, the rate of taxation on income considered to be due to the abnormal economic conditions of the war and post-war period up to June 1921 was raised to 100 %.

These extraordinary fiscal measures, by which exemptions originally granted were in some cases withdrawn, and which often involved the revision of assessments which had been regarded as definitely settled, have no doubt seriously affected the economic life of the country and have impaired the position of many enterprises and thereby considerably contributed to the gravity of the crisis. Without passing judgement as to the wisdom of these measures, we would point out that the various taxes on excess profits have already yielded at least 5 milliards. Many assessments have not yet been completed and it is stated that the complete yield from the extraordinary war taxation will reach 8 milliards. There is sometimes great difficulty in levying these taxes because the situation of some industrial and commercial enterprises has been seriously affected by the economic crisis.

Some minor direct taxes were introduced during the war and the first years of peace. Sometimes these taxes were only of a temporary nature, but they produced, and are still producing, considerable revenue. We refer in particular to the tax on fees received by directors and managers of companies, the tax on noncombatant forces and on persons exempt from military service, personal war contributions and various additions to other taxes or payments, the additional income tax on incomes of more than 10,000 lire a year, the increase in income tax rates and the partial introduction of the principle of graduation of direct taxation on revenue from real and movable property. Several of these taxes are temporary, partly because they were framed in a rough-and-ready manner, and were intended to be replaced by more permanent measures.

In the last few years, pending a general reform, and apart from the rough general elementary graduation already referred to, certain modifications have been introduced in respect of the *chief direct taxes*. These modifications have increased the yield, particularly by an increase in the rate of taxation. For instance, the percentage of the tax on income from movable property rose between 1914 and 1922 from 20.4 % to 25.868 % as regards income derived from subscriptions to public funds, and from 17.595 % to 25.368 % in the case of income from other capital sources. On income partly unearned and partly earned, it rose from 11.73 % to a rate varying from



12.934 % to 20.0944 %; on wholly earned incomes from 10.557 % to a rate varying from 11.6406 % to 18.801 % and on incomes wholly earned in Government service and other public work, from 8.797 % to rates varying from 9.3255 % to 11.07291 %. Similary in 1914 income derived from house property was taxed at a general proportional rate of 16.50 % and in 1922, the graduated rate varied from 20.72 % to 27.74 % according to the amount of income. With regard to the tax on landed property, in the provinces where the old land register is still in force the total amount to be levied is divided among the number of tax-payers and it is, therefore, difficult in this case to give the exact figures of the rate of increase. But in those provinces where the new detailed survey is in force, a general graduated rate of 8.80 % was applied in 1914, whereas in 1922 the graduated rate varies from 11.896 % to 19.15 %. It is rather by increasing the rate of taxation than by re-assessing the increased incomes that the yield of these three taxes has risen to the extent shown in the following figures:

	(000's omitted)	
	1913-14	1920-21
Landed property . . . . .	81,639	115,626
House property . . . . .	112,833	169,351
Earned incomes and incomes from movable property . . . . .	346,217	935,332

The increase in the yield from the taxes on movable property is much more marked than in the case of the taxes on other property, both by reason of the fiscal methods employed in the assessment of taxable income and also by reason of the many hindrances to increases in rents, which have hitherto prevented an increase in the yield from house property. The proposed reform is intended to remedy the imperfect method of assessing real property. Nevertheless, in estimating the increase in the yield of these taxes, it must be remembered that income from real property is subject to local taxation and also that, during the war, taxes on income from movable property were in part increased by additional local taxation. In 1921 the additional local taxes on incomes from movable property reached 48,000,000 lire for the provinces and 45,000,000 for the communes; in respect of house property, the additional taxation by the provinces rose between 1914 and 1921 from 62,000,000 to 139,000,000 lire and by the municipalities from 99,000,000 to 248,000,000 lire; the provincial and municipal charges on landed property likewise increased from 75,000,000 to 214,000,000 lire, and from 130,000,000 to 453,000,000 respectively. Local taxation has thus very greatly increased the burdens imposed on real property.

In addition to these various increases in the rates of individual taxes on income, these taxes, as already pointed out, were increased by the establishment of an additional duty on the aggregate of the three taxes. This additional duty is levied on the sum total of incomes registered as derived from property, whether personal property, house property or landed estate, if this sum total exceeds 10,000 lire. The additional duty is graduated and varies from 1 % to 8 %. In 1921 it was doubled in order to meet the expenses of the Government control of grain. This additional duty was originally introduced as a rough provisional expedient for collecting revenue, pending the general reform of direct taxation which would involve the organization of a graduated tax on total income, based on a systematic assessment.

This general scheme for the reform of *direct taxation* was drawn up by a commission of officials, politicians, and scientific persons which was already at work during the last months of the war. Their proposal was embodied in a bill brought before Parliament by Signor Meda in March 1919, together with a report of great theoretical interest. It was provisionally passed with certain amendments, in the form of a law of November, 1919, by the Ministry of Signor Tedesco. The law has not yet been put into force however, as the fiscal authorities have so far been chiefly occupied with assessing the Excess Profits Duty and Capital Levy; it was subsequently amended by the Soleri bill of November 25th, 1921, which it is believed will shortly be approved and will

come into force during the year 1923. Confining ourselves to the main principles of the last scheme, we may note that this reform will introduce a regular tax which will include, co-ordinate and unite the three taxes in force on income from landed property, house property and movable property, with rates somewhat different from those actually in force, and varying according to the kind of property subject to taxation. But the chief innovation will be the new method of assessing income in order to reduce the number of cases of evasion. In addition to the regular tax, there is a supplementary tax on the total income of the taxpayer, with a graduated rate and consideration for individual circumstances. The regular tax is fixed at a standard rate of 18 % for income wholly derived from invested capital, whether in movable property, house property or land; 15 % for income partly unearned and partly earned, if the latter is derived from industry or commerce; 12 % for incomes of persons engaged in professions or manual labour and 9 % on salaries and wages paid by the State, the provinces, the municipalities or other public bodies.

The innovations in assessing taxable income are important. Among others the changes in the methods of assessing income derived from land will produce important practical effects. After a transition period of five years the assessment of such income will be based on the current rental value of land, certain expenses being deducted. The assessment will, therefore, no longer be based on the inaccurate data supplied by old land registers, which in some districts are more than 100 years old, nor on the results of the new survey, which is based on data of productivity no longer representing present conditions. That survey was, in fact, based on the three years between 1874 and 1885 when the yield was smallest. The innovation gives a flexible and accurate basis for the land tax, and the yield obtained from it will be much increased as compared with the present system. The same applies to the valuation of income from house property, that is to say, the current local value, after deduction of certain expenses, forms the basis of the assessment. Income from premises utilised for industrial production is not assessed as from real property, it being considered that such income is included in joint earned and unearned income and constitutes the net profits of industry.

Income derived from joint stock companies is considered as taxable only in respect of profits received by the shareholders as dividends or as free issues of shares, thus solving the difficulties and disputes which have hitherto arisen in estimating income derived from profits that have not been distributed. Companies are thus taxed on the profits distributed, and not on those actually earned; they are, accordingly, regarded as representing the shareholders and as the shareholders' dividends do not assume the character of partly unearned and partly earned income, it follows that the profits of limited liability companies are taxed at the highest rate applicable to income from capital. Various rebates are allowed on very small earned or mixed incomes. It has also been explicitly admitted that wages of less than 10 lire per working day are not taxable, and that other wages are only taxable after the deduction of 10 lire per day.

The most complex innovation provided for in this reform is a supplementary personal tax on total income — a tax which also falls on income declared exempt from ordinary taxation in virtue of special laws — because it must take account of all the elements of income which go to determine the economic welfare of the taxpayer. This total tax also falls, therefore, on income derived from abroad but enjoyed in Italy, and even affects certain receipts which lack the character of periodicity peculiar to income, such as gains from increase in capital value and occasional earnings. The tax is imposed on the total individual income and not on the family income, but with some deductions in favour of heads of families in proportion to the number and ages of the members of the family. The rate is progressive and varies from a minimum of 1 % on incomes of 2,000 lire per annum, to 25 % for incomes of not less than 1 ½ million lire.

Special regulations have been introduced for the settlement of fiscal disputes, and severe penalties are prescribed for evasion of payment. It is difficult to estimate with any accuracy the increase in yield which this reform will produce, in view of the lack of statistical data and the drastic nature of the changes introduced, but it will certainly be very considerable, especially



as regards the supplementary tax and the new regulations for the tax on real property, it may, therefore, be assumed that the introduction of this reform will bring in a much greater yield to the Treasury, part, at least, as compensation for the yield from the temporary taxes on income derived from the war.

(b) *Taxes on business transactions, transfers of property and government concessions.*

The detailed information hitherto given has referred to the practical results of, and prospective yield from, the innovations introduced in respect of direct taxation. Direct taxes have now become the fundamental basis of the Italian financial system. But more or less drastic changes have been made in other forms of taxation also; the chief object of these changes being to increase the burdens on privileged persons. We have seen from the figures already quoted that a very large increase has been effected in the product of the taxes which the Italian fiscal authorities have somewhat illogically grouped under the single heading "*Taxes on business transactions, transfers of property and government concessions*". The yield for 1920-1921 amounts to six times as much as that obtained in 1913-14.

The changes made in respect of taxes on successions and gifts are of social rather than fiscal importance. Various measures have been passed increasing both the amounts charged and the percentage of the tax; before the war the latter ranged from a minimum of 1 % to a maximum of 22 %, according to the degree of relationship and the amount of the fortune left; it has been raised by degrees, and now varies from a minimum of 1 % to a maximum of 75 %, with the addition of a supplementary tax for collateral heirs already possessing a certain fortune, so that the maximum rate actually reaches 80 % and, in some cases, even more through additional duties. Furthermore, heirs who are farther removed from the fourth degree, are taxed as heavily as strangers. Finally, the State takes the entire estate from intestate successions, when the nearest relations to the deceased are farther removed than the sixth degree. Reforms as extreme as this lose the character of taxation and assume that of the confiscation of private property. They are essentially based upon revolutionary political principles, and are of doubtful value, both by reason of their injurious effect on savings and of the fact that the very high rate of taxation provides a strong motive of evasion. Nevertheless the reforms carried out by means of this tax are undoubtedly in accordance with the stringent fiscal principles recommended by the Brussels Conference.

Various provisions have been passed increasing the *registration tax* on documents of all kinds; graduated rates have been raised, and the fixed rates have been doubled. The *mortmain tax* has been increased by 50 % and an *archive tax* has been introduced and later on increased. There are besides, land registration duties, a transcription tax, and the mortgage tax, all of which have been increased in various ways.

The measures taken to create new and increase old *stamp duties* since the beginning of the war number at least 160, and it would be very difficult to give even a general summary of them. As we have already noted, these stamp duties have now in many cases entirely lost the character of "fees" imposed as payment for a service rendered by the State, and have become indirect taxes on consumption. It is true that several measures have been passed by which new deeds and documents are subjected to the formality of stamping and by which the former duties have been increased in varying degrees. But the indirect taxes on consumption, more particularly as regards luxuries, have a much wider scope and are imposed on jewellery, pharmaceutical specialities, perfumed soap and perfumery, hotel, café and restaurant bills, tickets on city tramways, bottled wines and liqueurs, tickets for cinematographs and other public performances, the sale of luxuries, transactions in raw materials and commodities among traders, etc., etc., etc. It has been found difficult to work out the fiscal mechanism of some of these taxes; they have had to be modified in certain respects and are not yet in final form. These taxes have been

unfavourably received and have necessitated certain troublesome formalities which cause them to be disliked by producers, traders and consumers. There is no doubt that evasions are very frequent and very difficult to detect. The reorganisation of these taxes, which at present yield far less than they should do theoretically, constitutes a fiscal problem for the future which will be very difficult to solve.

Among the more remarkable increases of the stamp tax on documents, we may note in particular the adoption of a graduated rate in the case of receipts; the burdensome nature of this tax renders it similar to taxes which in other countries have been imposed on payments in general. In the last few months the yield from certain of the taxes on business transactions has tended to diminish by reason of economic stagnation.

*(c) Indirect taxes on consumption.*

Customs duties and the various excise duties belong essentially to this category. This group of taxes has been less increased than the other categories in view of the danger of its adversely affecting production and consumption. The difficulties of obtaining food supplies, and the rise in prices made it impossible to impose excessive taxation of the kind. Among the increased charges special mention should be made of those on the manufacture of spirits, sugar, beer, glucose and vegetable oils. Additional taxation has been imposed on the manufacture of common and toilet soap, lye, luxury fabrics, gloves and refined mineral oils etc. The tax, particularly as regards the manufacture of wines, has aroused much opposition on account of the harm thereby caused to agrarian and commercial interests and it has had to be amended in various ways. In spite of the reductions made, it is expected that, when the tax is in full operation, it will produce an annual revenue to the Treasury of half a milliard lire. The changes in the customs duties have less importance from a fiscal point of view. The new tariff which came into force on July 1st, 1921, increased the customs duties on a very large number of articles, but rather with a view to protection than to the raising of additional revenue for the Treasury. In recent years the yield from customs has increased considerably, owing to the fact that payments have been made in notes (instead of gold) according to the rate of exchange.

*(d) Fiscal monopolies.*

The increase in the yield from monopolies is very remarkable. The revenue from this source in 1920-21 is almost 7 times that raised during the last years before the war and amounts to a third of the total yield of taxation. In certain circles there have been hopes of even greater financial results from the monopolies in production and distribution, and soon after the close of hostilities, therefore, the Ministry then in power prepared an extensive scheme for the creation of a series of monopolies – mostly commercial – from which very important results were expected. Under this scheme the State was to take over the trade in certain commodities which are in very large demand (coal, coffee, mineral oils, etc.,) but the opposition in commercial and industrial circles, and the fact that State management, by increasing prices and diminishing technical efficiency would not have produced the revenue anticipated, prevented the application of this ambitious scheme save to a very limited extent and for a short space of time. The only articles for which monopolies were established were trade in coffee and its substitutes and electric lamps; these monopolies were later superseded by taxes on manufacture and consumption. Even during the war, the sale of matches and playing cards had been monopolised; these monopolies produced a large amount of revenue, but the greatest amount has been drawn from the monopoly on tobacco, the sale price of which has been raised some ten times since the beginning of the war. It is calculated that the annual surplus revenue derived from these different increases amounts to two milliards. Although part of this surplus revenue is absorbed by the enhanced



cost of raw materials and of labour, the net proceeds have increased very rapidly. In spite of the higher prices, there has been an increase in the consumption owing to an extension of the use of tobacco among the lower classes during the war.

### *Local finance.*

The large increase in municipal and provincial expenditure and taxation during the last few years has kept pace with the considerable increase in State expenditure and taxation.

No general statistics are available as regards the expenditure of local authorities since the beginning of the war. Such expenditure has been largely augmented as a result not only of the fall in the purchasing power of money, but also of the extension of certain public services which were created in order to remedy certain evil consequences of the war (public relief, charitable undertakings, food supply, etc.). Considerable sums have also been spent on works of public utility with a view to alleviating the ill effects of unemployment. The economic changes resulting from the war have also led to a deficit in the budgets of many industrial public services which formerly showed a surplus. The cost of re-establishing and extending the public services has continued to increase, and one of the chief causes of expenditure by local authorities may be traced to the steady influx of the population into the towns, thus largely increasing the numbers of the urban population. The growing demand for housing accommodation has necessitated the allocation of considerable sums in the budgets of the local authorities. The increase in the expenditure incurred by many authorities was largely due to the mistaken idea that the return of peace would be followed by a period of great prosperity, in anticipation of which they drew up extensive programmes of work. The increased expenditure is undoubtedly the result of extravagance on the part of several of these local authorities and of unreasonable advances in the salaries of officials, particularly the lower categories.

This rise in annual expenditure has not been accompanied by an adequate and simultaneous increase in annual revenue.

The revenue from certain sources has fallen off during the war, particularly as a result of a decrease in consumption; the effect of the rise in prices has been slow in asserting itself and has had an almost negligible influence on the revenue of local Governments, more particularly as the taxes on consumption are for the most part fixed and the obstacles already referred to have prevented an increase in rents. Local authorities on their own initiative have been able to make but few fiscal reforms of any importance in view of the fact that the burden of taxation was very heavy, that taxation was limited by law, and that a definite ratio had to be observed between local and State taxation. During the last few years the State has introduced a few rough and ready innovations in the financial organisation of the local authorities, in order to increase the revenue, but these modifications have usually been of a very general and provisional nature; they consisted for the most part of mere increases in the rate of taxation, and thus added to the defects of the system of local taxation. The most important measure was the introduction of an additional local tax on excess profits and on part of the income from real property.

In spite of the character of these fiscal measures, the entire yield from various local sources increased almost threefold during the war, as appears from the following figures:

	1914	1921
	Lire (ooo's omitted)	
Municipal and provincial super-taxes . . . . .	365,552	1,148,062
Excise duties . . . . .	273,558	772,341
Municipal taxes and duties . . .	125,000	429,739
	<hr/>	<hr/>
	764,110	2,350,142

For the year 1922 it is expected that the yield from excise duties will amount to about 817,000,000 lire, and that other sources of revenue will show a considerable increase as a result of the modification of tariffs provisionally authorised by a recent decree. Revenue, however, is far from covering expenditure, and the budgets of several administrative bodies, both municipal and provincial, show a serious deficit. During the war and the years immediately subsequent to it, the State frequently allowed local administrations to have recourse to loans with a view to meeting the deficit on their budget or to enable them to bear the heavier burdens resulting from increases of salary or the carrying out of public works. These sums have mostly been borrowed from the "Loan and Deposit Institution". The loans granted by this institution thus rose from 878 million lire at the end of 1914 to 1,707 millions at the end of 1920, and the amount still further increased during 1921. To this must be added the loans contracted by the issue of bonds, which at the end of 1921 amounted to 458 millions. The liabilities incurred by local authorities have thus reached a very high figure indeed.

The necessity of placing local finance on a stable basis has led to a proposal framed in conformity with the reform of direct State taxation already described; this proposal will probably be approved very shortly and will come into force during the year 1923. Under its provisions the local super-taxes on income from land and home property are to be re-organised, and their scope extended in accordance with the new principles for the assessment of taxable income. The provinces will receive their share of the yield from the complementary State tax on total income, while it has been attempted to establish for the municipalities a new tax assessed according to the expenditure of each tax-paying family, instead of the former various municipal taxes on personal income, which are to be abandoned. In addition to the property taxes on real estate, a municipal tax is established in respect of income derived from commerce, industry or professions; this tax is linked together with a section of the State tax on income from movable property. But, on the other hand, the complementary municipal super-tax on movable property, temporarily established during the war, will be abolished, and also the old tax on commercial firms. A provincial super-tax on this municipal tax on industry, commerce and professions is also proposed.

These various innovations are intended to produce greater and more regular revenue for local authorities, both on the basis of the various forms of property taxes and on that of the total income whether earned or unearned. The result will be to increase the portion of revenue which the local authorities levy from direct taxation and chiefly from the taxation on the richer taxpayers. However, the serious financial situation of the local authorities makes it necessary to continue to have recourse to indirect taxation on a large scale. Under the new measures, therefore, several other taxes, internal excise duties, for instance, will be maintained, but they will be reorganised and graduated according to the price of the goods taxed. The State renounces all share in such revenue and assigns it wholly to the municipalities. A tax at a very high rate will be imposed on the sale of alcoholic liquors, previous duty on licences for the manufacture of spirit being, however, abolished. The basis of the temporary residence tax has been changed and its application extended to include all persons temporarily residing in a municipality. Lastly, a more important innovation has been introduced by the more systematic application of the principle of special contributions to local finance by means of the institution of betterment taxes for the execution of important public works, which increase the value of real property, by means of compelling proprietors to participate in certain public works, and by the imposition of special assessments on persons who benefit largely by certain public services.

The well-considered reforms enacted in direct State and local taxation are intended to increase very considerably the burdens imposed, whilst distributing them more equitably. But even in the present condition of financial legislation and practice, the latest figures would appear to show that the total burden of taxation is by no means disproportionate to the estimated national revenue. In proof of this, we would adduce the following figures, which show, in thou-



sands of lire, the total taxes paid during the calendar year 1921 by the population of the old Italian territory, excluding the liberated provinces:

	Lire (ooo's omitted)
Direct taxation . . . . .	4,703,424
Indirect taxes on consumption . . . . .	1,579,019
Fiscal monopolies . . . . .	3,902,289
Taxes on transfers and business transactions. . . . .	2,148,627
	<hr/>
Total of fiscal taxation . . . . .	12,333,359
Total of local taxation . . . . .	2,350,142
	<hr/>
Grand Total . . . . .	14,683,501

## POLICY ADOPTED WITH REGARD TO CERTAIN HEADS OF EXPENDITURE.

### *Policy with regard to Public Officials.*

In the previous paragraphs we have studied the general development of expenditure and revenue and the new taxes adopted in order to meet the increased needs. We will now deal with certain categories of expenditure to which the Brussels Conference particularly drew the attention of Governments. Let us first take the policy followed with regard to the remuneration of officials.

It is well known that the question of bureaucracy is one of the most serious in the organisation of the modern State; it has arisen before today and not in Italy alone. Even before the war, the organisation of public services was a subject of frequent discussion as were also the legal principles governing the contracts of public officials, the methods of recruiting and the selection of officials, and the methods of remuneration best calculated to obtain the maximum of efficiency. Various schemes were drawn up before the war and certain measures were adopted, but no adequate solution of this difficult problem was reached. The problem became even more serious after the outbreak of hostilities. During the war, a large number of Government officials were withdrawn from their duties and called to the colours, while at the same time the scope of State activity was enormously enlarged. For this reason the number of officials had to be greatly increased by the appointment of permanent and temporary staff. The latter should have been discharged on the return of those officials who had been mobilised and by the partial reduction of the duties undertaken by public bodies, but certain well known factors have led to an increase rather than a decrease of personnel since the war. Official statistics show that the staff employed in July 1914, amounted to 165,996 persons for administrative services, 117,504 State railway employees and 3,170 persons for the telephone service. The total number of officials was thus 286,670, and their total annual salaries amounted to 567 million lire. Later official figures, showing the position in July, 1921, give the total number of Government employees as 591,153 — more than double that for 1914; no exact comparison can be made, however, as the new figures cover a much larger field than the former ones. Nevertheless, certain partial comparisons make it clear that the number of Government employees has considerably increased, and the new enquiry gives us two general figures which are worthy of reflection, — regular salaries have risen to an annual total of 3,221 million lire, and allowances for the cost of living and other similar allowances amount to 2,310 millions. Government employees thus absorb in all an annual sum of 5 ½ milliards — more than a third of the annual revenue provided for in the budget for 1922-1923. This large expenditure is due not only to the number of public officials and employees, but also to the increase in salaries. This increase is partly permanent (in respect of increases in regular salaries) and partly temporary (in respect

of cost-of-living allowances) and is also accounted for in part by the more generous distribution of special allowances for extra work and other supplementary grants. The increase in salaries is the result of various measures which have generally granted a uniform amount to all grades of the service, or in any case, without there being any proportion between the increase and the former salaries, so that officials of lower categories receive the most favourable treatment and the comparative difference between large and small salaries is reduced. The cost of living allowance has been granted and altered several times without being regulated in exact proportion to the variations in the level of prices. As it takes into account family circumstances and is not in direct proportion to the amount of salary, it tends to improve the condition of the lower rather than of the higher staff. The resultant lack of proportion between the scale of salaries and the importance of the duties performed undoubtedly has harmful effects. Despite the great increase in expenditure, the economic position of Government employees, which was very unfavourable even before the war, has become most difficult, and has given rise to much unrest and even to strikes. The problem of the reorganisation of the public services has thus become even more difficult; it is essentially a political one, and its solution lies chiefly in narrowing the field of State action and in changing the basis of the fundamental principles of State organisation.

The law of March 19th, 1921, set up a Parliamentary Commission of Enquiry with a view to improving these conditions, and its report is of great importance. The drastic law of August 13th of the same year armed the Government with powers to transform and simplify the public services with the assistance of a special Parliamentary Commission. It authorised the Government to abolish services, offices and individual posts, to dismiss officials and cut down staffs, and generally to revise the scales of salaries. The maximum expenditure involved by the new reforms up to the end of the year 1930-31 inclusive is not to exceed the total spent on salaries and other allowances in virtue of the regulations in force on July 1st, 1921. The enquiries in connection with these reforms of the public services are almost complete and the reforms will probably be put into force very shortly. The inherent difficulties of the question, however, render it doubtful whether it is possible at present to arrive at a satisfactory solution.

In preceding paragraphs of the present Report we have already referred to facts in connection with the reduction of military expenditure, which was recommended by the Brussels Conference.

#### *Budget Charges in respect of Food and Industrial Supplies.*

The war period brought about a very high measure of State control of the supply of coal, imported liquid fuel, lignite and other home-produced fuel, metals, hides, and other raw materials. This control was specially organised with a view to war production. Exact statistics are not yet available in all cases. During the period now under review, the State control in respect of less important industrial supplies was already liquidated, or was in course of liquidation, but the State continued to control *the supply, sale and distribution of coal*. At the end of 1919 and at the beginning of 1920 this Government control of the coal trade still facilitated the working of industry and of the public services by assuring the supply of fuel—still a matter of great difficulty to private undertakings in view of the deficiency in production, difficulties in trading, want of money and lack of transport. In 1920 the position had somewhat improved as regards the provision of supplies in Italy, although there were still periods of great shortage when the stocks available were very limited. The State continued to distribute supplies on a considerable scale during the first months of that year and also for some time later in the year during the strike in England. Supplies from private commercial undertakings were still irregular at periods when the costs were excessively high. The change which took place in 1920 in the conditions of the world fuel market and the rapid fall in prices, gradually lessened the value of State control of the supply of products from foreign markets in order to meet private needs. The State control



of fuel was, therefore, gradually transformed and was utilised chiefly to supply the needs of the railways and other public services. In the second part of 1920, and during the whole of 1921, supplies of fuel were drawn chiefly from the coal furnished by Germany in virtue of international treaties. From the balance sheets for June 30th and December 31st, 1921, it results that the coal and liquid fuel services, from the time of starting to the latter date, far from causing a loss in the Budget, produced a profit of about half a milliard lire.

### *State Control of food Supplies.*

The State control of *food* was of much greater importance to the national economic and financial system. Owing to a number of circumstances and factors which need not be analysed here, the war placed very serious difficulties in the way of the obtaining and distribution of food-stuffs for the civil population. The war caused a considerable diminution in the production of food-stuffs at home and also made the obtaining of supplies from foreign countries and the transport of food-stuffs very difficult. A large proportion of the available supplies was suddenly cut off through losses in naval warfare; part of the supplies from abroad could not be obtained owing to interruptions in transport traffic. Moreover, an abnormally large proportion of the already scanty supplies had to be used to feed that part of the population which was under arms; the supplies available for the civil population were thus very small. The scarcity of food and the monetary inflation occasioned serious rises in prices, with the result that the distribution of supplies amongst the various classes of society became quite different from what it is in normal conditions, because the well-known phenomena of variations in prices preceding variations in wages, profits and other forms of income produced their effect on the economic means available to the consumers to the immediate detriment of the working classes in particular. All these circumstances resulted in Italy, as elsewhere, in State intervention on an extensive scale in the food-supply, in order to stimulate production, facilitate exchange and transport, check the rise in the curve of prices, limit consumption, and distribute the available supplies between the families of consumers in a manner differing from that which would have taken place had economic forces remained unchecked.

While refraining from expressing an opinion as to the principles and effects of this policy of rationing and supplying of foods, we would point out that some of the circumstances which gave rise to it were still active after the cessation of hostilities. Indeed, the population became more restless and demanded State intervention, even though in the meantime a new scale of salaries and wages and other incomes corresponding to the changed monetary conditions, had gradually been established.

As regards food, the widest measure of State intervention took place in the case of wheat and other cereals. The State established a monopoly of trade in these food-stuffs, by requisitioning the whole of the internal production and by controlling the importation and the distribution to the consumers, whose consumption it thus regulated and limited. Owing to political, social and economic considerations, corn and certain other food-stuffs were thus re-sold at an official price lower than the cost of production; the difference between the cost of production and the sale price became particularly noticeable after the war, chiefly in the case of imported wheat, the price of which, while already rising in the markets from which it was obtained, was further increased by the high exchange. In the case of cereals (and also of certain other food-stuffs and of some raw materials used in industry) supplies had been obtained in common for the various Allied countries, since the beginning of the war, by means of inter-Governmental organisations which succeeded in controlling the big markets and preventing fluctuations in prices. This organisation came to an end in 1920, and from that time, owing to various causes, prices once more rose,

Under these conditions, State control of food imposed considerable burdens on the budget during, and still more after, the war. As to the extent of these charges, we only possess insufficient and fragmentary statistical data for State trade in food-stuffs is not included either in the budget estimates or in the Treasury accounts. The uncertain and fragmentary nature of the data is due to various administrative causes, chief among them being the adoption, as regards food-supplies from abroad, of a system of inter-Allied organisation, under which the settlement of debts was extremely slow. At the time of writing, this settlement had not been completed as regards cereals; certain accounts connected therewith are still the subject of dispute, very large sums being involved. We quote certain striking details as to the financial result of the control of cereal supplies. These details are taken from a Parliamentary paper entitled "Report of the Budget Commission on the Bill for the State Control of Cereal Supplies, Chamber of Deputies, sitting held on November 25th, 1920."

"During the years 1914-15 to 1918-19, a total of 100,188,070 quintals of cereals was imported from abroad at a net loss of 60 lire per quintal, *i.e.*, at a total loss of 6,011 million lire. From July, 1919, to October, 1920, 29,367,826 quintals of grain were imported from abroad at an average price of 240 lire per quintal, and a total price of 7,048 million lire; further, 35,439,899 quintals of flour, maize, rye and barley were imported costing 8,166 million lire, the total loss amounting to 6,180 million lire. For the whole period there was thus a total loss of 12,191 million lire, on cereals imported from abroad from the commencement of State control up to October, 1920. The figures relating to home-grown cereals requisitioned by the Government are not more satisfactory. Up to the end of October 1920 the sums paid for requisitioned cereals amounted to a total of 5,475,286,500 lire. To this total 970 million lire must be added under the heading of general expenses, giving a grand total of 6,445,286,500 lire. The sales brought in a total of 4,094,252,500 lire, so that the control of requisitioned home-grown cereal supplies caused a loss of 2,351 million lire. The total loss resulting from the control of homegrown and foreign cereal supplies thus amounted to 14,542 million lire. Assuming similar results for the period ending December 31st, 1920, the future loss under the same conditions will not be less than another 1,000 million, so that the total deficit on the control of cereal supplies from the institution of the system up to the end of 1920, will reach 15,542 million lire."

The price at which corn was sold to the civil population during the war was subject to various fluctuations, which were, however, insignificant as compared with pre-war prices. The same phenomenon was observable after the war, where the difference between the official sale price and the cost price became even more marked. Any proposal by the Government to raise the sale price called forth violent opposition, particularly from the working class organisations and from certain political parties. This opposition succeeded for a long time in preventing the adoption of effective measures to remove — if only in part — the differences in price referred to. A Bill having this object was introduced in the spring of 1920, but aroused general disapproval, even in technicalities.

But in the latter half of 1920 the evidence of the immense loss caused to the Exchequer by the State administration of the food-supply, and especially by the State control of bread prices, finally opened the eyes of the nation. It was then realized that the fiscal measures which had been, or were about to be adopted, would gradually produce sufficient revenue to balance the ordinary expenditure, but that they would never suffice to off-set the enormous deficit caused by the State administration of corn supplies; and that the maintenance of this system would inevitably involve financial disaster and the bankruptcy of the State. It was about this time that the Brussels Conference declared that the fixing of artificial prices below purchase prices, for the sale of bread and other food-stuffs, was a disastrous method (see Resolution No. 5 of the Commission on Public Finance).

In view of the gravity of the situation and the change which had taken place in public opinion, this serious problem was taken in hand towards the end of 1920, and a Bill was framed



which passed into law, after prolonged discussion, on February 27th, 1921. This law decreed that, beginning with the harvest of 1921, home-grown corn should be sold at a price sufficient to cover the purchase price, and since that date prices have been gradually increased. At the beginning of 1921 the cost of foreign wheat was about 210 lire per quintal; it had been estimated that it would be necessary to import 24 million quintals for the next season, and the purchase price worked out at 5,040 million lire, not including 200 millions for administrative expenses. By selling wheat to cereal dealers at an average price of 150 lire per quintal, commencing with July, 1921, receipts amounting to 3,600 millions were anticipated; in this way the deficit on the service of the administration of corn supplies was reduced to 1,640 millions. In order to meet this deficit a whole series of fiscal measures was enacted placing taxes on income, capital and articles of consumption; these measures are included in the long list of new taxes, imposed during the last few years, which have already been discussed in previous paragraphs. The most noteworthy of these measures were the immediate anticipatory payment of an instalment of the Capital Levy, the doubling of certain sumptuary taxes, the increase of the tax on wines and the increase in the price of tobacco. The revenue from these taxes was to be used chiefly to form a special fund intended to meet the deficit on the administration of cereal supplies. This law was of the greatest importance for the restoration of the economic system of the country because it eliminated a cause of serious disorder from the public finances; it conformed in all respects with the principles of political economy advocated by the Brussels Conference.

Meanwhile, as a first stage in the application of this law, the sale price of green wheat was raised, in March, 1921, from 60 to 90 lire, and in April to 115 lire; similarly, the sale price of hard wheat was raised from 70 to 110 lire and later to 135 lire. In spite of this very appreciable rise in prices, the administration of corn supplies showed a considerable deficit during the financial year July, 1920-June, 1921. During this financial year, the army and civil population (not including producers) consumed 39  $\frac{1}{2}$  million quintals of grain, in the following proportions:

27,533,100 quintals of foreign wheat at an average price of 230 lire per quintal, say . . . . .	6,259,572,000 lire
12 million quintals of home-grown wheat at an average price of 115 lire for green wheat and 132 lire for ripe wheat, say . . . . .	1,413,980,000 »
Total. . . . .	7,673,552,000 lire

The actual receipts fell far short of this large total, as the very low prices referred to above remained in force until the end of February, and the progressive increases were only brought into effect gradually after that date.

The 38,330,000 quintals handed over to the provincial boards produced	3,037,850,000 lire
The 1,203,100 quintals handed over to the military administration at the price of green wheat produced . . . . .	100,711,000 »
Total. . . . .	3,138,561,000 lire

so that the deficit incurred by the State for the supply of corn during the financial year 1920-21 reached 4,534,991,000 lire.

During the following period the balance sheet for the administration of food supplies worked out more favourably than was expected at the time when the law referred to above was passed. Home production increased to 52  $\frac{1}{2}$  million quintals for the season 1920-22 as compared with 38  $\frac{1}{2}$  millions for the previous year, and with rather more than 49 millions on an average for the

years preceding the war. Moreover, there was a very appreciable fall in the price of foreign wheat in the great producing markets in the spring of 1921; at the same time freights and the rates of exchange fell appreciably, so that the cost price in Italy of foreign wheat, which at the beginning of 1921 had fluctuated between 225 and 230 lire per quintal, fell very rapidly and had reached a point below 150 lire in June. This fall continued and by the end of the year foreign green wheat was being sold at about 125 to 130 lire per quintal in the Italian markets. These commercial fluctuations made it possible to find a more favourable solution of the problem of the food supplies than had been contemplated by the law referred to above, and it was possible to publish a decree on June 22nd, 1921, re-establishing, as from July 1st, freedom to import foreign maize and rye. Freedom to import wheat was restored on September 1st. *Thus from July onwards all State intervention in dealings in maize, rye, barley and oats obtained from the new harvest had ceased* and the trade in these cereals had been completely de-controlled.

On the other hand, as regards wheat, a provisional system of State control was maintained. The State had undertaken, by a decree dated May 4th, 1920, to purchase or requisition the 1921 harvest at prices of 125 lire for soft or half-ripe wheat and 145 lire for hard wheat (not including the bonuses which in certain districts had to be paid to producers). This engagement was maintained, as regards wheat, although the prices laid down were henceforth above those ruling on the open market. However, the undertaking to requisition the whole harvest was converted into an obligation on the part of the Government to purchase, at the price stated, such quantities of wheat as the producers would be able to offer to the Government up to August 31st, not including, of course, the quantities required for sowing and for the food supply of the agriculturists and their families. In districts where bonuses had been promised they were paid even in respect of wheat which was not handed over to the State. Contrary to expectations the offers of wheat made to the State were comparatively small, because the producers believed that the fall in prices would not be of long duration. This form of speculation on a rise in prices, practised by the farmers and merchants, did not meet with success, for though the prices have fluctuated to some extent they have hitherto remained at a relatively low figure. The Government continues, however, to effect some purchases abroad in order to be able to control the market. The fall of prices no doubt caused a certain deficit in the food-supply budget, but these debit balances, the totals of which are not yet known, were insignificant. The exhaustion of the stocks of home-grown and foreign wheat in the year 1922 marked the approach of the final winding-up of State administration.

We give below, in quintals, the quantities of cereals requisitioned or imported by the State from August, 1920, to December, 1921:

		Requisitioned	Imported
August, 1920	. . . . .	4,494,035	3, <sup>1</sup> 10,605
September	» . . . . .	3,302,504	2,578,328
October	» . . . . .	2,259,880	3,006,139
November	» . . . . .	1,454,617	3,611,710
December	» . . . . .	914,669	2,671,294
January, 1922	. . . . .	571,606	3,383,912
February	» . . . . .	384,147	2,540,070
March	» . . . . .	367,795	2,486,754
April	» . . . . .	299,589	3,206,344
May	» . . . . .	134,853	3,271,434
June	» . . . . .	130,000	3,559,146
July <sup>1</sup>	» . . . . .	366,128	3,292,559

<sup>1</sup> Date of re-opening of the free market.



		Requisitioned	Imported
August	1922 . . . . .	2,132,869	2,934,181
September	» . . . . .	1,532,800	1,374,092
October	» . . . . .	1,418,203	639,978
November	» . . . . .	900,000	954,318
December	» . . . . .	675,000	908,290

*Maritime Transport in the Service of the State.*

During the years of the war, the extreme difficulties of maritime transport and the necessity of securing a certain amount of cargo-space — indispensable for the military operations and for supplying the needs of the population and industries — compelled Italy, like most other countries, to exercise Government control over the tonnage, partly by requisitioning national or enemy vessels, and partly by chartering transports on time charters or for single voyages, with the result that, during the war, the greater portion of the sea-borne traffic was carried on for the service of the State and under Government control. The State administration of shipping, which was conducted under various legal forms, resulted in the State having to undertake the handling of an enormous volume of business, involving a turnover of milliards; the gross figures do not fully appear in the State budget. State control over maritime tonnage was maintained during the years after the war, not only because of the necessity of importing large shipments for the requirements of the public services and the food supplies of the population, but also as a consequence of the legislative measures adopted during the war, with a view to encouraging the purchase or building of ships — measures which provided for the vessels being hired by the State for a fixed number of years. The result of the employment of tonnage in various ways for the service of the State, both during and after the war, was in many cases that the available tonnage was less fully employed than under normal conditions.

The following table shows, in regard to the period under review, i.e., the years 1920 and 1921, the total sum on account of charters and compensation for requisitioning ships paid by the different State Departments for national and foreign vessels requisitioned or chartered by the State. The total expenditure for these two years amounts to about 2  $\frac{1}{2}$  milliard lire; to this total should be added 450 millions, being the value of the coal supplied by the State, apart from payments for charters and compensation. These large figures are accounted for by the transport of goods, as shown in a subsequent table, which contains details for each quarter of the two years under review. The largest item in these shipments was the coal imported by sea, both for the State railways and for private deliveries. Recently the private deliveries have almost entirely ceased and the supply of coal is only undertaken in the case of coal of German origin, received in respect of reparations. The importation of mineral oil, most of which is required for the navy, has also gradually decreased. During these two years shipments of cereals reached high figures, but even they show a decrease during the last months of 1921, and they will soon disappear as a result of the new regulations adopted in regard to the control of food-stuffs and of the restoration of private trade in cereals. Thus, although the transport of goods for the service of the State during the two years which have just passed reached a total which is certainly noteworthy, we may expect to see it reduced to an absolute minimum during the current year. Shipments of coal for the use of the State railways have returned to the normal pre-war figures, with this difference, however, that purchases are for the most part effected f.o.b. instead of c.i.f., and that the shipments have in most cases been carried out in privately-chartered Italian bottoms, instead of in British bottoms. The expenditure for chartering and compensation for requisitioning during the year 1922 has fallen to 20 millions, which represents the cost of chartering certain vessels which it has been necessary to retain for a period of two years by virtue of the "De Nava" Decree; to this sum must be added 140 millions for the requisitioning of the former Austro-Hungarian vessels.



*Payments for charter and compensation for requisitioning of vessels during 1920 and 1921.  
Lire (ooo's omitted).*

On account of the Ministry of Shipping.	National Mercantile Marine			Foreign Vessels		
	1920	1921	Total	1920	1921	Total
1. Compensation for the requisitioning of Austro-Hungarian vessels . .	233,000	216,000	439,000		—	—
2. Chartering of vessels hired for two years (Decree "De Nava") . . . . .	30,000	75,000	105,000	—	—	—
3. Transatlantic voyages . . . . .	50,000	—	50,000	—	—	—
4. Charters for fixed periods . . . . .	20,000	30,000	50,000	—	—	—
5. Vessels chartered in England . . .	—	—	—	902,000	155,000	1,057,000
6. Vessels chartered in the U.S.A. . .	—	—	—	84,000	48,000	132,000
Total . . . . .	323,000	321,000	644,000	986,000	203,000	1,189,000
<i>On account of other Ministries :</i>						
Agriculture . . . . .	—	—	1,000	—	—	—
War . . . . .	—	—	19,000	—	—	—
Admiralty . . . . .	—	—	41,000	—	—	—
Supplies and Foodstuffs . . . . .	—	—	375,000	—	—	—
Fuel Control (State Railways) . . .	—	—	243,000	—	—	—
Total . . . . .	—	—	679,000	—	—	—
Grand Total . . . . .	323,000	321,000	1,323,000	986,000	203,000	1,189,000

*Goods carried in Vessels requisitioned or chartered by the State.  
Tons.*

	Cereals	Coal	Frozen Meat	Mineral Oil	Total
<b>1920</b>					
1st quarter . . . . .	571,948	680,090	11,862	6,390	1,270,290
2nd " . . . . .	414,988	768,080	—	—	1,183,068
3rd " . . . . .	839,374	822,482	9,305	7,112	1,678,273
4th " . . . . .	921,240	888,200	4,889	5,984	1,820,313
Total:	2,747,550	3,158,852	26,056	19,486	5,951,944
<b>1921</b>					
1st quarter . . . . .	792,653	724,355	3,580	8,900	1,529,488
2nd " . . . . .	768,451	521,625	2,330	6,923	1,299,329
3rd " . . . . .	613,061	592,959	3,509	1,264	1,210,793
4th " . . . . .	168,620	566,190	—	—	734,810
Total:	2,342,785	2,405,129	9,419	17,087	4,774,420

In order to demonstrate the rapidity with which the State administration of merchant shipping was wound up, we have given, in annexes Nos. I-III, the figures showing the distribution of Italian mercantile tonnage (for vessels of over 250 tons register) at the beginning of the years 1920, 1921 and 1922. If the figures in these tables are compared, it will be seen that State intervention has continually decreased during the last two years. The number of vessels still under State control has been further reduced during the first quarter of 1922, and it practically includes at the present time only the ex-enemy vessels which are still under sequestration, the vessels chartered by the State Railway Office for shipments of coal and finally a few vessels used as transport for troops and war material. Shipments for food supply have entirely ceased. The vessels of the lines which carry the subsidised mails are still subject to a special legal and economic régime. As the old conventions were suspended during the war, and as no new agreements have yet been concluded to meet the changed conditions of this form of traffic, these vessels are managed, on behalf of the State, by the companies which formerly held the concessions. Their course is prescribed for them and they are subject to regulations laid down by the State, which provisionally guarantees the companies' receipts, by an amount approximately corresponding to the former subsidies. A Bill is at present before Parliament regarding new conditions to govern the working of these mail lines.

#### *Unemployment Subsidies.*

The International Conference at Brussels recommended the various Governments to discard as rapidly as possible all measures contrary to economic laws and productive of artificial results, which conceal from the population the true economic situation of the country. Among the most salient instances of such measures is the system of unemployment doles which demoralise the worker instead of giving him an incentive to work. During the period immediately after the war the adoption of measures for reducing unemployment, even by artificial means, was regarded as a practical necessity, having regard to the political considerations by which all Governments were then influenced. The organisation of society was in an abnormal condition at the time when hostilities ceased; various factors tended to provoke conflicts and to encourage a spirit of revolt. At the time when hostilities ceased, public opinion continued to exaggerate, far in excess of reality, the difficulties which society would encounter in readjusting itself to peace conditions, and there was a fear that demobilisation of the armies and industries would present much greater difficulties in regard to the absorption of labour than really proved to be the case. It was believed that these two operations would take place in a precipitate and disorderly fashion, that they would result in throwing a mass of labour on to the market at a single stroke, and that this would inevitably cause unemployment of a widespread and dangerous character. To guard against this danger, the Government had contemplated measures of three kinds, with the object, first, of facilitating the employment of labour (by labour exchanges), secondly, of providing doles for unemployed, and thirdly of utilising on public works the labour for which no employment could be found. In reality this unemployment, which had been so dreaded, was not experienced in the first months of peace, partly because the demobilisation of the army and of industry was only carried out by stages, and partly because the increased activity of a great number of industries which had been noticeable during the second part of 1919 and during 1920 had created favourable conditions on the labour market. During this time the policy adopted by the State, particularly in regard to the rapid and extensive execution of public work, helped no doubt to absorb a good deal of the available labour, so that unemployment did not attain large dimensions, and wages could be maintained at a high level, or even increased. Subsequently, during the last months of 1920 and in 1921 the number of unemployed increased considerably, as a consequence of the economic crisis. A table is appended showing the funds allocated by the State by virtue of special legislation (*i.e.* in addition to the customary measures) for the execution of works on a large public scale.

in order to reduce unemployment, for the organisation of labour exchanges for the unemployed and for the distribution of unemployment doles.

*Funds allocated by the State to Unemployment Relief in accordance with legislative enactments.*  
Lire (ooo's omitted)

	Ordinary and Extraordinary Unemployment Relief	Organisation of Labour Exchanges for unemployed		Appropriations for unemployment insurance	Advances to local administrations for measures against unemployment	Unemployment doles in the liberated provinces
		Workmen	Clerks &c. in private firms			
Decrees of April 29th and July 24th, 1917 . . . . .	7,400	2,000	1,000	—	—	—
Decrees of Nov. 17th, 1917, Jan. 5th, 1919, and Feb. 9th, 1919 . . .	97,000	—	—	—	—	—
Decree of Sept. 7th, 1919 . . . .	50,000	—	—	—	—	—
Decree of March 11th, 1920 . . .	10,000	—	—	—	—	—
Decrees of Oct. 19th, 1919, and March 11th, 1920 . . . . .	40,000	—	—	40,000	50,000	—
Decree of Feb. 23rd, 1922 . . . .	—	—	—	40,000	—	—
Decrees of Feb. 2nd, 1918, and of Feb. 9th, 1919 . . . . .	—	679	—	—	—	—
Laws of Jan. 30th, and of July 17th, 1921 . . . . .	45,000	—	—	—	—	—
Law of Feb. 5th, 1922 . . . . .	—	—	—	—	—	16,000
Total . . . . .	249,400	2,679	1,000	80,000	50,000	16,000

*Extraordinary Credits for Public Works and for reduction of Unemployment.*

Decree of Nov. 17th, 1918	No. 1698: Grant of 3,300 million lire for public works carried out by the State and authorisation to lend 500 millions at 3 % to local administrations.
Decree of April 25th, 1920	No. 572: Increase of 100 millions in the loans granted to the local administrations by the decree of November 17, 1918.
Decree of June 8th,	No. 864: Increase of 50 millions in the loans granted to the local administrations.
Decree of April 3th, 1921	No. 571: Increase of 30 millions in the funds for the granting of relief to local administrations.
Law of August 20th, 1921	No. 1177: Authorisation given to the National Social Insurance Institute, to the National Insurance Institute and to the Savings Bank Departments of the Banks of Naples and Sicily, to lend to the State sums up to 1,000 million lire for accelerating the execution of public works undertaken for the alleviation of unemployment. Appropriation of 840 million lire in the Budget Estimates of the Ministry of Public Works for the execution of various specified public works.

As is seen from the above table fairly extensive credits were granted for public works; the works in question were rapidly carried out, so that all appropriations — with the exception of the last credits voted — were either completely, or very nearly, absorbed in the works. An



organisation, which it is needless to describe in this paper, was created for distributing the funds among the public works to be executed in the various districts, due regard being paid to the extent of unemployment. The funds were allocated, in part, to drainage boards and to local administrations. Although the chief object of these measures was to utilise the available labour and to enable certain works to be rapidly completed, the usefulness of the works in question was nevertheless borne in mind. The report of the special Committee for the organisation of these works, dated November 15th, 1920, states:—

“Although it is necessary to provide employment rapidly and extensively for the workers and though the condition has been laid down that no works should be subsidised unless they are suitable for the employment of a large amount of labour and can be commenced forthwith and completed during 1920, it should nevertheless be remembered that works should only be undertaken which are of unquestionable value from an economic point of view. It is for this reason that reference has been made to the special conditions in the South of Italy and in the Islands, where the carrying out of certain public works, though less important if regarded solely from the point of view of finding work for the unemployed, was of considerable importance for the economic development of those regions. In this connection special attention was directed to drainage works; and, with a view to enabling land which had been improved by irrigation to be exploited, the Committee was authorised to extend the application of the laws concerning the drainage of the Roman Campagna to other districts in which drainage works could be carried out.”

As is seen from the above table, relief to unemployed was given even during the war, and measures were taken resulting in the creation of an insurance fund against forced unemployment of workers employed in war industries (auxiliary factories) who might be thrown out of work after the war. This fund was gradually increased as a result of various measures adopted even as late as 1921. Doles were paid to the unemployed through the labour exchanges. Although the granting of large doles to the unemployed might be useful and even necessary, from a broad point of view, during the first and most difficult phase of military and industrial demobilisation, there was a danger that it might lead to useless waste of money and might exercise a demoralising influence on the habits and mentality of the working classes. It is indeed often the case that unemployment doles create unemployment. For this reason a decree of October 19th, 1919 (No. 2214), introduced, in place of the system of doles, a system of compulsory insurance against forced unemployment under conditions similar in some respects to the British system. The introduction of this form of insurance, which was destined to have such far-reaching effects, was certainly premature in Italy, as was also the introduction of other branches of compulsory social insurance, conceived on a very large scale, recently established by Italian legislation. They represent, however, an interesting experiment in the systematic organisation of workers' insurance, and constitute a substitute for the doles, thus being in accordance with the principle laid down by the Brussels Conference.

Unemployment is regarded as a sort of social misfortune which may be remedied by a systematic scheme of insurance. The employers and the workers provide in equal proportions the greater part of these insurance funds. The only action taken by the State is to supplement these contributions. Direct State subsidies are only retained as a provisional measure.

#### FINANCIAL SITUATION OF PUBLIC UNDERTAKINGS.

The Brussels Conference in its resolution on the subject of public finance utters a warning against “the maintenance of the tariffs of railway fares, postal rates and charges for other Government services on a basis which is insufficient to cover the cost of the services given, including annual charges on capital account.”

The factors, discussed in previous chapters, which have in general added considerably to the expenditure of the State also contributed in a special degree, as time went on, to the increase in the expenditure of various undertakings managed by the State. The increases in rates were not sufficient to enable these undertakings to balance their budgets.

### *State Railways.*

Considering first the case of the *State railways* we give below some grand totals showing the financial position for the last few years:

Year	Receipts	Expenditure	Profits (paid into the Exchequer)	Deficit (subvention from the Exchequer)
1913-14	614,648	586,580	28,068	—
1914-15	620,648	641,004	—	20,905
1915-16	849,451	819,346	30,105	—
1916-17	1,204,987	1,120,281	84,706	—
1917-18	1,418,562	1,418,558	4	—
1918-19	1,767,252	1,767,194	57	—
1919-20	1,996,255	2,856,007	—	859,751
1920-21	3,251,956	4,297,842	—	1,045,526

As a result of technical and economic factors, which it is needless to describe in detail, the financial results of the exploitation of the State railways were not very satisfactory even before the war. During the first part of the war there was a sudden decrease in traffic and an appreciable increase in expenditure; at the same time the receipts were augmented only in a small degree, either because the rates had not yet been increased or because the increases had not been sufficiently large. After the first shock of the war, both receipts and expenditure began to increase rapidly: the increase in the rates, even though slow, the restriction or suppression of certain not very remunerative forms of traffic — slow goods trains — the abolition of certain privileges (return tickets, cheap tickets for State officials, etc.) contributed in part to swelling the receipts. The factor which played the principal part in increasing both the traffic and the receipts to a marked degree was the military traffic, which attained enormous dimensions; the characteristics of this traffic are well known (speed, traffic in one direction only, concentration of traffic in a limited zone, vehicles returning empty, difficulty of making intensive use of the rolling stock, etc., etc.).

During the war, the immense increase of military traffic coincided with a great decrease in ordinary traffic and a corresponding general relaxation of business activity due to various factors connected with the war (for instance: decrease of maritime traffic, prohibition or restriction of many forms of trade, suspension of traffic with enemy countries). The decrease in the volume of ordinary traffic was chiefly due to the restrictive policy intentionally adopted by the Railway Administration which suspended or reduced the train services in order to economise material, fuel and other means of exploitation. These measures did something to check the upward tendency of expenditure so that even during the last years of the war the total expenditure was less than the total receipts. At the conclusion of hostilities the general position of the Railway Department was considerably modified. Intensive military traffic and the low amount of civil traffic



continued for some time, but the civil traffic gradually regained its normal volume. Railway rates were raised several times until the passenger fares reached three times the pre-war rate. Although these increases were not very considerable if account is taken of the diminution in the purchasing power of money, the fact that the last increases coincided with the economic crisis served to restrict the development of traffic; it, therefore, seems legitimate to infer that any subsequent increases in the rates would fail to produce a sufficient yield to justify their introduction.

The war had resulted in an intensive utilisation of the rolling stock and plant, and the urgency of transport and the lack of material made it impossible during that time to undertake the necessary work of upkeep and repairs. When peace returned, work of this kind was considerably in arrears and had to be executed at great cost. It was necessary to place large orders for rolling stock and to make provision for new installations; these repairs and purchases had to be carried out at very high cost, in comparison with the pre-war prices. The causes to which the increase of expenditure must chiefly be ascribed, however, were as follows:

- (a) The increased cost of fuel,
- (b) The increased number of employees and the increase in their wages.

The expenditure on fuel for transport amounted in 1913-14 to 76 million lire and rose in 1918-19 to 526 millions, in 1919-20 to 978 millions, and in 1920-21 to 1,241 millions; this increase took place in spite of all the steps taken to reduce the consumption of fuel, and the partial employment of wood, lignite and other fuel of inferior quality. The rise in prices of coal had already reached sensational figures, the average cost per ton of fuel having gradually risen from 36.46 lire in 1913-14 to 202.67 lire in 1918-19, to 397.84 lire in 1919-20 and to about 468 lire in 1920-21. It was not until 1921-22 that — as a result of the considerable fall in prices — a serious reduction in the expenditure on coal could be effected.

Another very serious cause of difficulty for the Railway Administration was the increase in the expenditure for personnel. The table below shows the number of persons employed at the end of each year, the total annual expenditure in thousands of lire and the average wages of each employee:

	Number of Employees			Total Annual Expenditure (thousands of lire)	Average wages in lire
	Permanent	Temporary	Total		
1913-14	117,974	36,535	154,509	283,646	1,918
1918-19	118,028	62,381	180,409	796,845	4,631
1919-20	128,731	92,752	221,483	1,270,761	6,498
1920-21	154,131	81,329	235,460	1,974,832	9,386

These figures show clearly the enormous increase in the expenditure on personnel as well as the considerable augmentation of the number of employees.

After demobilisation, the temporary employees, who had been engaged in large numbers during the war in the place of employees called to the colours, were not discharged from service. All the factors already mentioned tending to increase the number of State officials also contributed to the increase of railway employees. In the case of the railway service, the result was also due, though only to a slight extent, to an increase in the railway system (as the Sardinian railways and those of the liberated provinces were taken over by the State); but the result must be ascribed





above all to the falling off in the effective output of the workers, and to the adoption of the 8-hour day. It will also be seen from the table given above that a very great part of the expenditure was due to increases in wages. These increases took the form in some cases of cost of living allowances at uniform rates to all State officials; in most cases, however, under the influence of political pressure, strikes or threats of strikes, the grants were made to the railway employees only. The railway employees, being highly organized, possess a great number of associations, some of which enjoy great power owing to the number of their members or to the skill of their leaders. Even before the war, they had succeeded in making themselves a privileged class, in comparison with the general body of workers and officials. From 1917 onwards, there were frequent and sudden rises in wages, sometimes in the form of payments in anticipation, payments on account, temporary bonuses and cost of living bonuses; these concessions were not made in accordance with any system. Subsequently, in the summer of 1920, all the concessions referred to above were embodied in a new scheme of wages which included further privileges for the employees. Certain secondary and auxiliary benefits, such as bonuses for economy of fuel and other materials, gratuities to deserving employees, bonuses for regular running of trains and profit sharing bonuses (*cointeressenza*) were also merged in the general wages scheme, thus depriving the personnel of all interest in the efficient and economical working of the lines. However, the advantages which the Administration had gained by giving the personnel an interest in the efficient working of the service have demonstrated the advisability of returning to this system of auxiliary bonuses. In the present economic crisis it is certainly very difficult to effect an appreciable reduction in the number of railway employees and there are various causes which render it not only improbable but very difficult in practice to reduce this formidable item in the budget of the Administration. The expenditure on personnel was equivalent to 46 % of the receipts in 1913-14, 45 1/2 % in 1918-19, 63 1/3 % in 1919-20 and 60 3/4 % in 1920-21; the total of this expenditure has, therefore, increased considerably in proportion to the receipts.

As a result of the large increase of expenditure, the coefficient of exploitation which was 81.25 % of the receipts in 1913-14, rose to 94.44 % in 1918-19, to 137.49 % in 1919-20 and to 138.88 % in 1920-21.

For the year 1921-22 the draft budget of the railway administration (including navigation services, but excluding some special or independent administrations) estimates the ordinary receipts at 3,430 million lire and the ordinary expenses at the same figure. The extraordinary receipts and expenses are both estimated at 471 millions, so that the budget is expected to balance without profit or loss for the Treasury.

The explanatory report on the budget states that the estimates for the receipts were based on the following assumptions: normal increase of traffic, complete application of the increased rates previously decided on, marked reductions in the prices of fuel and other materials, and full and complete application of the higher scale of wages and salaries already granted to the personnel. The expenditure on personnel is fixed in this draft budget at a total which does not differ materially from that of 1920-21. The expenditure on fuel has been calculated on the basis of a standard rate of 300 lire per ton, which is certainly higher than the prices now ruling. In this last railway budget, therefore, a balance has been obtained between receipts and expenditure for the financial year 1921-22. At the time of drawing up the present report no statistics have been published which would enable a reliable opinion to be reached with regard to the present administration. In all probability, however, the balance sheet for 1921-22 will show a fairly large deficit, because receipts have been very considerably reduced by the economic crisis, whilst expenditure for wages of staff and repair of material appears to have greatly exceeded the budget estimates. The time has not yet come when the railways will no longer be a charge on the State Treasury.

In Annex No. IV to the present report, we give a few figures, to supplement those already quoted, regarding the State railways in 1919-20, 1920-21 and 1913-14.

*Postal, Telegraph and Telephone Services.*

The war modified the financial results of the *Postal and Telegraph services* in the same way as it affected the railways. Before the war the receipts from the administration of the postal, telegraph and telephone services exceeded the working expenses, so that a fairly large profit accrued to the Treasury, although even then complaints were made regarding the clumsiness of the administrative machinery, the complexity of the service, and the inefficiency of the personnel. For the financial year 1913-14 the total receipts from the Postal Administration rose to 153 ½ million lire, and the expenditure to 148 millions. In the years immediately preceding that year, the receipts had shown a marked upward tendency (ten years before in 1903-04 the receipts had only amounted to 93 millions) in spite of repeated reductions in the postal rates. The war caused an immense increase of the working expenses, exceeding in value the corresponding depreciation of the currency. The expenses for the years 1919-20 and 1920-21 are shown below. It will be seen that the totals are higher than those which we have just quoted:

		Lire (ooo's omitted)	
		1919-20	1920-21
Receipts . . . . .		361,637	531,770
Working Expenses . . . . .		648,360	956,611
Deficit . . . . .		286,723	424,841

It will be seen that the deficits are considerable.

The rates were greatly increased in February, 1921: postal rates by 60 % on an average, and telegraph rates by 20 %. Still greater increases were introduced in the telephone service, and subsequently to February, 1921, further partial modifications were introduced in certain services. These measures had the effect of reducing the number of letters carried, from which it may be inferred that further restrictions would fail to produce immediate revenue. In spite of the rise in rates, the administration of postal, telegraph and telephone services still shows a deficit. The draft budget of the Ministry for these services has recently been reconstructed in order to show "the economic budget of the Department" ("Bilancio economico dell' Azienda") for the year 1922-23, *i. e.*, so as to render it possible to calculate in a scientific manner the cost of single services. It contains the estimates for these services, but the figures are not comparable with those previously given, which were extracted from the budget in the old form ("Bilancio di Competenza"). The "economic budget" shows total expenses in 1922-23 of 962 million lire and total receipts amounting to 794 millions, the result being a net loss of 168 millions. The co-efficient of exploitation rises in consequence to 121 % while the analogous "economic budget" for the year 1907-08 showed a co-efficient of 75 %. A credit balance of 25 % is thus converted into a deficit of 21 %. The disastrous result, in this Department, is also largely due to the vast expenditure on personnel, which represented 49 % of the total expenditure in 1907-08, and is estimated at 65 % in 1922-23. In 1907-08, the total for wages was 54.3 million lire; in 1922-23 it is estimated at 630.9 millions. The increase of expenditure on personnel has been extremely rapid during the last few years; it rose from 458.1 millions in 1919-20, to 665.4 millions in 1920-21. The future variations under this heading are connected with the general reorganization of State personnel.

The number of employees in the postal, telegraph and telephone services tends to increase for the same reasons as in the case of the railway employees. The number of the employees was 40,690 at the beginning of 1915, and 49,576 in April, 1921. The number of temporary employees included in the above totals rose from 2,318 to 12,189. The finances of these departments can only be placed on a sound footing if measures are taken to increase the output of the staff and to relieve the administration by discontinuing those services which are least remunerative and handing them over to private enterprise.



## STATE LOANS.

### *Extraordinary Financial Operations during the various stages of the war and since the war.*

In spite of the large increase in taxation, the budget figures given in the preceding pages show a considerable difference between revenue and expenditure, especially during the last years of the war and the first years of peace. It was, therefore, necessary, in order to cover the deficits, to have recourse to extraordinary financial methods in the form of loans of various kinds.

The first of the tables given below shows for each financial year from July, 1914, to December, 1921, the total of the various kinds of debts incurred by the State. The second table gives a summary of National Debt on December 31st, 1921.

The first table shows that the new loans amounted to very large totals during the various financial years. Special attention is drawn to the total of 20 milliards reached during the financial year 1918-1919. After having reached this maximum figure, the borrowings showed a downward tendency and fell as low as 5,863 million lire for the half year from July to December, 1921. The latter sum does not seem to correspond with the estimates of the budget for 1921-1922; account must, however, be taken of the very appreciable reduction in the total of the loans contracted during the last few months, and also of the important funds held by the Treasury.

The first table also shows that consolidated loans were only issued up to the beginning of 1921. The issue of funded loan bonds was discontinued after the sixth national loan which was floated in the first months of 1920 with remarkable success. After that date the State borrowed, generally speaking, only in the form of Treasury bonds of various types repayable at different dates. Most of these bonds were ordinary short term bonds; during the financial year 1920-1921, they exceeded 10 milliard lire and they rose during the half-year from July to December, 1921, to a total of five milliards. The issue of ordinary Treasury bonds became the chief source of revenue for the Treasury during the period under review in this report. These bonds are not to be considered as part of the floating debt merely intended to enable the Treasury to effect its regular payments and to make good temporary differences between the expenditure and receipts; they constitute provisional obligations of the State, which later on will have to be placed on a sounder basis. These provisional bonds have now reached a considerable amount and their consolidation will cause serious difficulty to Italian financial policy. The difficult conditions of the money market and the consequent fall in securities with fixed interest, which have now reached a level below the price of issue, make it impossible to attempt to float a new consolidated loan. The criticized fiscal policy adopted during the last years, and particularly the introduction of compulsory conversion of bearer bonds have certainly contributed to depreciate the securities. Treasury bonds of various categories are not subject to this registration rule. This privilege, as well as the fact that they are repayable at short terms and consequently are not subject to any heavy depreciation, has made it easier up to the present to place them with banks and private individuals. It should be pointed out that the placing of these bonds with banks has sometimes resulted in increasing the amount of circulation, in the strict sense of the term, for the sake of the Treasury. These transactions have thus taken the place of direct advances in bank notes on account of the State. The figures which are given in the tables show that short term bonds stand higher than 3 or 5 year bonds, although the latter yield a higher interest. During the first months of 1922, the influx into the market of money available for investment, but not to be invested in industrial securities, caused a reduction in the capitalisation rate of



interest bearing securities and, in consequence, of State bonds. The changed conditions made it possible materially to reduce the rate of interest of the new issues. The improvement in the financial situation of the State and the increase in the Treasury balances made it also possible to limit the total number of bonds to be issued monthly to a relatively small amount (350 million lire).

During the year 1920-1921, a milliard 7 year bonds was issued to provide funds for the reparation of war damages. These bonds bear interest at 5 % on their nominal value and further entitle the holders to take part in certain very important lotteries. These bonds are so very popular that their stock exchange price has risen rapidly to a figure considerably above the price of issue. A new issue of seven-year bonds of the same kind was made in April, 1922, at a much better price than the preceding one; the whole issue was quickly and easily taken up. The lottery system might be systematically adopted in future also or other less important operations with a view to the partial consolidation of the short-term loans.

The figures in the first table show that from the financial year 1920-1921, recourse was had to the issue of notes to a very limited extent only.

Debts contracted with the British and American Governments amount, at par rate of exchange, to 21,245 million lire. At the current rate of exchange the total would naturally be much larger. No new debts of this kind were contracted after the first months of 1919, the subsequent increase in the foreign debts being solely due to accrued interest.

The National Debt which on June 30th, 1914, amounted to 15,706 million lire had risen by the end of 1921 to 112,026 millions. This immense total comprises the loans from foreign Governments which are at present the subject of much earnest discussion.

NATIONAL LOANS AND TREASURY BONDS ISSUED FROM JULY 1st, 1914, TO DECEMBER 31st, 1921.  
ADVANCES IN NOTES FROM THE BANKS OF ISSUE DURING THE SAME PERIOD.

LIRE

Financial year	National loans	Advances in Bank Notes	Treasury bonds					Total
			Ordinary and for Military supplies	Special, for abroad and for credits opened by the U. S. Government	Five-year	Three-year	Seven-year	
1914-15	1,000,000,000	960,879,647	21,226,000	—	—	—	—	1,982,105,647
1915-16	3,628,831,100	294,986,672	384,063,500	2,275,469,800	—	—	—	6,583,351,072
1916-17	3,985,473,600	410,000,000	3,334,570,000	3,259,666,200	312,074,100	—	—	11,301,783,900
1917-18	6,108,086,900	3,250,000,000	2,883,618,500	5,935,675,800	900,185,300	—	—	18,888,889,400
					{ -188,677,100 <sup>b</sup>			
1918-19	137,000,000	1,129,008,976	8,042,797,000	7,735,179,200	2,666,077,725	218,631,100	—	19,928,604,001
1919-20	21,097,460,800	1,390,000,000	{ -216,447,500 <sup>d</sup>	1,060,668,152	1,300,982,600	264,145,900	—	17,060,106,177
			5,614,184,500 <sup>c</sup>		{ 2,095,485,175 <sup>c</sup>	{ -126,434,100 <sup>c</sup>		
1920-21	—	102,105,000	10,278,857,000	591,874,519	850,696,250	156,581,000	1,000,000,000	12,980,113,769
1921-22	—	—	4,999,985,500	387,379,200	4,756	29,400	—	5,862,994,100
	35,956,852,400	7,536,980,295	24,114,485,500	21,245,312,871	4,734	497,000	1,000,000,000	94,588,038,066
					51,094,205,371			

N. B.— The 4 % 5-year bonds are not included, as they have all matured and been repaid.

The amount of State notes in circulation on December 31st, 1921, was 2,545,364,290 lire, including 277,692,000 lire of "token notes" 1 and 2 lire, which replace small silver coin which has been retired.

- (a) Foreign bonds are calculated at par rate of exchange.
- (b) Reduction due to subscriptions to the 5th National loan.
- (c) Reduction due to subscriptions to the 6th National loan.
- (d) Difference between the issues and repayments for the year 1919-1920.

STATE OF THE NATIONAL DEBT ON DECEMBER 31st, 1921  
(in millions of lire).

1) Old debt previous to August 1st, 1914, total on August 1st . . . .	14,839	
4 % Treasury Bonds and other securities repaid . . . . .	1,461	
		<hr/>
		13,378
2) National loans during the war:		
1st, 2nd, 3rd, . . . . .	4,628	
4th . . . . .	3,986	
5th . . . . .	6,245	
6th . . . . .	21,091	
		<hr/>
		35,950
3) Ordinary Treasury Bonds. . . . .		24,494 <sup>1</sup>
4) Treasury Bonds (5, 3 and 7 year). . . . .		5,734
5) State circulation with the exception of short-term bonds. . . . .		2,267
6) Circulation of bank notes on account of the State . . . . .		8,504.8
7) Treasury Bonds abroad and for credits of the United States Government calculated at par rate of exchange . . . . .		21,245.3
8) Balances from the Deposit Institute (Cassa Depositi e Prestiti) and interest bearing loans on current accounts . . . . .		452.6
		<hr/>
Total . . . . .		<u>112,025.7</u>

<sup>1</sup> This sum includes 380 million lire of ordinary bonds in circulation on August 1st, 1914.



## Part II.

### MONETARY MEASURES.

#### THE MONETARY SITUATION IN ITALY DURING THE LAST FEW YEARS.

##### *Development of the circulation.*

The following table shows in millions of lire, for the end of each of the months named, the total of notes in circulation: notes issued by the banks on their own account and on account of the State, and notes put into circulation directly by the State (with the exception of "cash notes" which generally merely replace fractional coinage).

		Notes issued by the Banks			Notes issued by the State	General Total
		On their own account	On account of the State	Total		
July	1914	2,265	—	2,265	499	2,764
December	»	2,201	735	2,936	657	3,593
June	1915	2,243	1,613	3,856	766	4,622
December	»	1,899	2,069	3,968	1,082	5,050
June	1916	2,158	2,158	4,316	1,135	5,451
December	»	2,458	2,554	5,012	1,317	6,330
June	1917	2,521	3,295	5,816	1,460	7,276
December	»	2,592	5,833	8,425	1,749	10,174
June	1918	3,590	6,481	10,071	1,972	12,043
December	»	4,585	7,166	11,750	2,124	13,874
January	1919	4,307	7,193	14,496	2,124	13,620
February	»	3,967	7,407	11,374	2,164	13,538
March	»	3,953	7,763	11,717	2,191	13,908
April	»	3,907	8,330	12,236	2,268	14,504
May	»	3,921	8,151	12,072	2,271	14,344
June	»	4,255	8,026	12,281	2,271	14,552
July	»	4,879	8,007	12,885	2,271	15,156

	Notes issued by the Banks			Notes issued by the State	General Total
	On their own account	On account of the State	Total		
August 1919	4,567	8,639	13,206	2,271	15,477
September »	4,735	9,250	13,985	2,271	16,256
October »	4,530	10,696	15,227	2,271	17,498
November »	4,825	10,774	15,599	2,271	17,870
December »	5,651	10,630	16,281	2,271	18,553
January 1920	4,920	10,714	15,635	2,270	17,905
February »	4,848	10,599	15,447	2,270	17,717
March »	5,475	10,456	15,932	2,270	18,202
April »	6,029	10,401	16,430	2,270	18,700
May »	6,459	10,402	16,861	2,270	19,131
June »	7,484	10,333	17,817	2,270	20,087
July »	7,615	10,284	17,899	2,269	20,168
August »	7,431	10,524	17,955	2,269	20,224
September »	8,231	10,682	18,912	2,269	21,181
October »	8,361	10,940	19,301	2,269	21,570
November »	8,577	10,899	19,476	2,269	21,745
December »	8,989	10,743	19,732	2,269	22,001
January 1 1921	8,672	10,591	19,263	2,269	21,532
February »	8,618	10,308	18,926	2,269	21,195
March »	8,759	10,005	18,764	2,269	21,033
April »	8,677	9,601	18,278	2,269	20,547
May »	8,809	9,220	18,029	2,269	20,298
June »	9,437	8,722	18,159	2,268	20,427
July »	9,433	8,507	17,940	2,268	20,208
August »	9,490	8,352	17,841	2,268	20,109
September »	9,727	8,430	18,156	2,268	20,424
October »	9,746	8,554	18,300	2,268	20,568
November »	9,436	8,486	17,922	2,268	20,190
December »	10,704	8,505	19,209	2,268	21,477

The total amount of paper money circulating in Italy on the eve of the war, was 2,764 million lire, a figure which was already excessive, and which pointed to a slight depreciation of legal currency in relation to the gold standard. The amount rose gradually to 13,874 millions at the end of 1918, shortly after the cessation of hostilities; this ascending movement subsequently made further progress, and the fiduciary circulation amounted to 18,553 millions at the end of 1919, to 22,001 millions at the end of 1920, and to 21,477 millions at the end of 1921. If the total notes in circulation at the end and at the commencement of each year are compared, it will be found that the increase was 30 % in 1914 (5 months), 40.6 % in 1915, 25.3 % in 1916, 60.2 % in 1917, 36.8 % in 1918, 33.7 % in 1919 and 18.6 % in 1920, while a slight decrease of 2.2 % took place in 1921. If the total volume of circulation at the end of July, 1914, is expressed by 100, the following index numbers are obtained for the ends of the succeeding years: 120 for 1914, 183 for 1915, 229 for 1916, 367 for 1917, 502 for 1918, 670 for 1919, 796 for 1920 and 777 for 1921: with regard to the final figure for 1921, it should be remembered that a great inflation of circulation of a purely temporary character took place in the last days of December as a consequence of the serious panic caused by the failure of the Banca Italiana di Sconto.

*Various forms of currency in circulation in the State.*

As is shown by our table, the paper money circulating in Italy may be divided into three categories. First of all, there is a comparatively unimportant amount of small notes (5, 10 and 25 lire) issued directly by the State; these notes, which amounted to a total of about 500 million lire before the war, were increased on several occasions during the war until they reached a total of about 2,300 millions and they have since remained more or less at that level. Another category of much greater importance consists of notes issued by the banks on account of the State; a certain proportion of these notes (485 million lire) represents obligatory advances under the terms of the law establishing the Banks of Issue. In order to meet these advances, the banks issue notes which are covered as regards one-third of their value by metallic reserves, and thus receive from the State interest at the rate of  $1\frac{1}{2}\%$  per annum. Another part of the notes on account of the State is constituted by what are called extraordinary advances to the Treasury and these advances increased progressively until June, 1918, when they reached the sum of 4,850 million lire; they have not undergone any alteration since that date. These notes are not covered by any metallic reserve and the Treasury only pays interest to the banks at a minimum rate (a quarter per cent per annum) to cover the expenses occasioned by the printing of the notes. A further milliard of notes, representing a category of advances essentially similar to the group just mentioned, was issued in 1919 in order to carry out the withdrawal of an equal quantity of Treasury bonds, which had been taken by the Banks of Issue. Under the heading of Extraordinary Advances there were also issued about 800 million lire in notes required for the exchange of the Austro-Hungarian crowns circulating in the liberated territory, and in order to enable the banks to advance funds on the security of bonds issued by the enemy in the invaded territory (Cassa Veneta). The notes so far mentioned were destined for the general requirements of the Treasury; further quantities of notes were issued and transferred to the Treasury for special purposes; an issue of notes for 700 million lire belongs in particular to this category — notes designated in the balance sheets of the banks under the curious heading "Notes supplied to the Treasury". This issue took place at the beginning of the war and was largely used to enable the Deposit and Loan Institute (Cassa Depositi e prestiti) to grant loans to local authorities for the execution of public works.

A final and very important category of notes was issued and handed over to the State in order to enable the State to make grants to various institutions (savings banks, co-operative societies, agricultural credit establishments, credit institute for the reconstruction of Venetia etc.), of funds or credits of which they were in need, and in order to finance temporary economic operations undertaken by the State (purchases of corn, war supplies, fuel, etc.). This last category has been subject to the greatest variations, especially in the latter part of the period under review; certain advances required for various institutions, after having attained important dimensions, were reduced or even ceased altogether, and the recent improvement in the national finances has enabled the Treasury to meet out of its own funds contingencies which would previously have necessitated special issues of notes. There have also been heavy fluctuations in notes issued on account of the food supply; inflation was going on at the time when the goods were purchased and deflation when they were sold. It may be urged in this connection that the notes thus put into circulation by the action of the State merely took the place of notes which — if the State had not itself taken part in these transactions — would still have been required in order to render possible the corresponding private trade operations. It is, however, clear that the commercial dealings of the State require a greater amount of money than business conducted by private individuals, since the State has less recourse than they to the ordinary instruments of credit.

The table shows that the notes in circulation on account of the State underwent fairly serious inflation up to the end of 1919 as a result of the unsatisfactory condition of the national



finances; in one form or another this inflation served to meet the deficit in the revenue of the State. During the year 1920 there was practically no inflation. In 1921 there was no change in the amount of notes issued as statutory or extraordinary advances, or supplied to the Deposit and Loan Institute; on the other hand, the amount of notes issued in order to make advances to various institutions, or for the purpose of food supply, decreased from 2,904 to 666 million lire, chiefly in consequence of the reforms accomplished by the State in food control. A further reduction in this category of notes may be expected in the near future, whereas a reduction in the other categories can only take place as a result of extraordinary Treasury operations or if — which is at present very improbable — the receipts of the State were largely in excess of the expenditure.

When studying the fluctuations of the notes issued on account of the State in comparison with the issue of notes for the needs of the banks themselves, it must be realised that a proportion, probably very considerable at times, of the notes ostensibly put into circulation for purposes of trade, while they appear to have been issued for the requirements of ordinary economic transactions, were in reality used to meet the needs of the State in the form of discounting or of subscriptions to Treasury bonds, or in some other way to make up the deficit in the accounts of the Provincial Treasuries (the service of which is in the hands of the Bank of Italy). A specially marked expansion in the issue of bank-notes always took place on the occasion of the issues of national loans; the fact has been duly observed that subscription to loans causes a characteristic inflation of credit owing to the practice of bank advances, the dangers of which have so often been emphasized by students of war economics. The relationship between the expansion of the issue of bank-notes for the needs of the banks and the needs of the Treasury has been so evident during the war and during the period which immediately followed it, that some persons have not hesitated to assert that it was no longer possible to make a distinction between the two kinds of issues. The data supplied in our table show that the so-called commercial circulation (notes issued by the banks for their own use) only underwent slight oscillations till towards the end of the war and that it even showed at certain moments a distinct tendency to decrease; this movement corresponded with the reduction in the volume of business and with the role assumed by the State as the centre of the national economic life.

The inflation which took place in 1919 was due to the crisis caused in the financial market by the announcement of new extraordinary taxes and by the exaggerated news published in this connection during the summer months; these circumstances resulted at that time in hoarding of notes on a still larger scale than had been the case at the beginning of the war. At one period notes and cheques were also exported with a view to avoiding the capital levy. The heavy inflation of notes which took place in 1920 was caused in the first half of the year partly by the operations with regard to the National Loan and afterwards by the needs of the Treasury and the continuous demand for credit which characterised the beginning of the economic crisis. The serious inflation in 1921 was also due to the economic crisis, as well as to the considerable and ever-increasing volume of bills and acceptances and of advances granted to industrial, commercial and banking undertakings to tide them over a critical period. At the end of December, 1921, and in January, 1922, there was a sudden increase in the volume of notes issued for commercial purposes; the reason being the consternation caused by the suspension of payments by the Banca Italiana di Sconto; the heavy withdrawals of funds made by depositors in all sorts of credit establishments during that period occasioned large re-discounting operations and advances on bills of exchange, Treasury bonds and other securities, and consequently a considerable issue of notes. These notes were not long in finding their way back into the coffers of the banks as soon as confidence was restored.

#### *Development of credit.*

Much space would be needed to give an account of the evolution of the phenomena connected with credit which were witnessed during the last few years.

### *Banks of Issue.*

During the war, the Banks of Issue assumed in a special way the functions of the Treasury organisation; they were entrusted with the task of regulating circulation, supplying the funds necessary for the economic transactions of the State, controlling the foreign currency market, and issuing loans; their normal work as credit establishments was considerably reduced either by reason of the changes caused by the war in business affairs or the competition of the ordinary banks. But as soon as the first abnormal post-war period was over, the credit operations of the Banks of Issue began to flourish on a larger scale than ever, as shown by the increase in discounting and loan transactions; this period of activity lasted until the first symptoms of the economic crisis made themselves felt; the preliminary phase of a crisis is indeed always characterised by a feverish demand for money; the liberality with which the Banks of Issue and ordinary banks grant advances helps to moderate the violent oscillations of the economic movement, to minimise the early repercussions of the crisis and to postpone the advent of the acute stage.

### *Ordinary Banks.*

The credit transactions of the ordinary banks during these years have been subject to great variations. It is well known that in the early days of the war, at the time of the crisis caused by the sudden disorganisation of all the conditions of economic life, a marked tightening of credit took place, occasioned by the general lack of confidence and by the substitution of cash transactions for credit transactions. Then for a time trade activity was somewhat restricted, although the great and characteristic flow of money into the banks in consequence of the monetary inflation was already noticeable. When this first phase of the economic crisis caused by the war came to an end with the sharp upward trend in business, resulting from the extensive and profitable orders for war-supplies, the large ordinary banks experienced an increase in the volume of operations, and, taking advantage of the increase in production and trade, artificially caused by the rise in prices, these banks plunged anew into more or less extensive industrial credit operations. In this way there arose for some time a considerable recrudescence of speculation in shares and frequent new issues for the establishment of new or the extension of the activities of old companies. These extensive operations for financing industry were persisted in somewhat recklessly by certain banks, even after the cessation of hostilities, at a time when the preliminary symptoms of the crisis were already becoming evident, and when it would have been desirable to adopt a policy of retrenchment and caution. It was the lack of foresight, the erroneous belief that the conclusion of peace would, within a short time, give rise to a great expansion of trade and industry, that caused the disaster to the Banca Italiana di Sconto.

The arrival of the crisis, accompanied by a fall in prices, decreased demand, and the stoppage of new enterprises gave rise to a very serious depression, particularly in the large manufacturing industries (industries producing instrumental goods); the result of this was to endanger the position of many firms to which certain banks had given credits on too lavish a scale. In the second half of 1921 and the first months of 1922, the large banks adopted a policy which aimed at rendering their resources more liquid, restricting their loans and reducing their financial operations.

The vicissitudes which the credit policy underwent during and after the war reacted in marked fashion on the movement of deposits. The accumulation of funds in banks was sharply reduced at the beginning of hostilities; it then gradually rose again, and reached very large proportions as paper money poured more and more into the market. At times there were certain stoppages in the flow of deposits caused by sudden spasms of want of confidence or panic movements and also by the flotation of State loans. Later on the economic and banking crisis gave rise once more to a considerable decrease in the amounts of deposits. A large proportion of the money which flowed into the banks in excess of the demands for credit was invested in Treasury bonds. These bonds were thus taken by the banks up to amounts which in certain cases reached several milliards. This enormous absorption of Treasury bonds, either by direct subscription or by discounting or loan operations, caused a further increase in the bank issue of notes for



Treasury requirements. The economic and the credit crisis lately led to great restriction in the subscriptions to Treasury bonds by ordinary banks, and a reduction in the rate of interest on these bonds makes such an investment no longer advisable.

The war, by giving a new form and fresh stimulus to industrial credit operations and by directing the activities of the banks of issue for some time in a new direction, further strengthened the predominant influence of the large ordinary banks on the economic life of the nation, and paved the way for their expansion. The increased importance of exchange operations and of relations with international finance gave rise to the establishment of branches or affiliated banks abroad, or to the conclusion of agreements with foreign banks.

The credit crisis at the beginning of the war suggested the idea of a Consortium, which was established with a view to granting advances on industrial securities, or on goods offered as guarantee. The influence which this institution exercised on credit was of but slight importance, except quite at the beginning of the war during the period of tension caused by the general lack of confidence.

Eventually the economic crisis revived the importance and activity of the Consortium, making advisable a large increase in capital, particularly with a view to meeting the difficult situation with which many enterprises were faced as a result of the collapse of the Banca di Sconto.

#### VARIOUS EFFECTS OF MONETARY INFLATION AND DEFLATION.

*The financial market : movements in the prices of bonds and ordinary stock.*

The monetary inflation and the other main economic features of the war period have left their mark on the share market. The continuous depreciation of the currency reacted in different ways upon the fixed security market and the ordinary stock market. Under the influence of well-known factors, the depreciation led to a rise in the rate of interest and hence also to a rise in the capitalisation rate of securities with fixed yield.

Such a rise in the capitalisation rate is obviously equivalent to a corresponding decrease in the value of capital, and it is for this reason that fixed securities declined in value during and after the war roughly in proportion to the increase in the circulation of paper money. This decrease slowed down at moments when inflation was less rapid, and even gave place to a movement in the opposite direction when signs of deflation appeared.

Naturally other factors — in particular political — exercised a more or less temporary influence on share quotations. To these factors must be attributed the characteristic phenomenon of an abnormally high capitalisation rate for the principal securities issued during the war — the result of a feared reduction in the rate of interest. A similar influence on the capitalisation rate was caused by the announcement of the obligatory conversion of bearer bonds to registered securities. To show the downward tendency in the quotations of fixed securities, we give here index figures based on the annual averages of the chief bonds issued by the Government, representing the sum quoted on the exchange required to produce one lire annual interest :

1913	27.85
1914	26.94
1915	22.30
1916	22.55
1917	20.75
1918	19.24
1919	19.75
1920	16.47
1921	15.93



During the first part of 1922, at a time when the value of the currency showed a marked improvement, there was a distinct upward tendency in the quotations of State loans.

We show below the quotations at the end of each month during the last two years for the two main types of Government stock:

	3 1/2 % Stock				5 % Stock		
	1920	1921	1922		1920	1921	1922
January. . . . .	80.26	73.25	71.93		86.58	74.66	75.82
February . . . . .	79.73	73.56	73.66		86.47	75.25	78.37
March. . . . .	79.31	72.19	69.77		86.43	75.32	77.—
April . . . . .	79.31	73.42	70.75		85.55	79.13	77.98 <sup>1</sup>
May . . . . .	79.34	73.87	—		84.48	79.60	—
June . . . . .	75.72	72.73	—		77.96	78.67	—
July . . . . .	71.28	69.98	—		74.44	75.10	—
August . . . . .	69.09	70.75	—		74.14	75.90	—
September. . . . .	68.66	70.74	—		71.50	75.26	—
October. . . . .	66.25	72.27	—		68.06	77.03	—
November. . . . .	75.35	71.58	—		76.83	76.64	—
December. . . . .	74.04	71.65	—		75.94	76.98	—

Corresponding with this depreciation of Government securities, there has been a similar depreciation of bonds issued by local administrations and mortgage banks, and also of industrial shares; indeed, during the years 1920 and 1921, the industrial shares (for which there is not much market in Italy) fell in some cases even more sharply than Government bonds, owing to the increased risks resulting from the economic crisis.

But if monetary inflation, by decreasing the purchasing power of money, tends gradually to reduce the market value of fixed securities, this inflation tends, as a rule, to increase the value of ordinary stock. The latter represents the assets of industrial, commercial and banking enterprises, etc., consisting, at any rate partly, of fixed plant, goods and other property, the monetary value of which grows as the fiduciary circulation increases. Inflation is also usually accompanied — *caeteris paribus* — by a tendency towards increased profits, as expressed in the monetary unit, and by a tendency, though less marked, towards increased dividends. Thus, in spite of the influence of the rise in the capitalisation rate already noted, the market price of shares had, once the initial period of general economic disturbance had passed, both during the war and after the armistice, a clearly marked upward tendency parallel to the development of monetary inflation.

This upward movement was arrested for the first time in the second half of 1919, and then again towards the end of 1920, owing to the decrease in profits, either feared or actually realised, on account of the great labour disputes and the new fiscal measures. Subsequently, in 1921 and 1922, there has been a marked downward movement corresponding to the economic crisis, which has considerably increased the risks in respect of profits from industrial enterprises, and caused a sudden and considerable decrease in the cost of many raw materials, of manufactured articles and of plant. This downward movement coincides with the monetary deflation. The fluctuations in Stock Exchange quotations were naturally felt most — both during the high- and low-price period — in connection with the shares of large manufacturing companies (mining, metal-working, machinery, etc.), both by reason of the greater variability in the value of the assets of these companies and by reason of the greater variations in their profits.

The following index numbers, calculated according to the Stock Exchange quotations for the shares of a large number of companies, will give a clear idea of the movements on the

<sup>1</sup> April 15th.

market. The individual figures referring to any particular stock merely express the proportion between the prices quoted for this stock at the end of any given month and the quotation at the end of the preceding December. The general index figures have been calculated on a basis of the weighted arithmetic mean, there being given in respect of each company a coefficient corresponding to the amount of capital invested at the end of the previous year.<sup>1</sup>

	1916	1917	1918
December of the preceding year	100	100	100
January . . . . .	99.31 x 0.4	101.53 x 0.30	106.15
February . . . . .	98.04 x 0.04	102.79 x 0.10	106.12 x 0.03
March . . . . .	99.97 x 0.9	101.18 x 1.31	103.81 x 1.18
April . . . . .	100.52 x 1.7	102.34 x 2.13	108.47 x 1.86
May . . . . .	104.79 x 0.2	105.05 x 0.11	109.92 x 0.11
June . . . . .	112.69	106.62 x 0.18	113.63
July . . . . .	111.70 x 0.6	115.52 x 0.41	127.03 x 0.10
August . . . . .	116.63	109.47	128.85 x 0.03
September . . . . .	115.85 x 0.2	113.97 x 0.19	127.64 x 0.05
October . . . . .	114.04 x 0.3	116.77 x 0.32	117.83 x 0.26
November . . . . .	110.50	111.87	115.71
December . . . . .	107.84 x 0.1	113.76 x 0.11	109.85 x 0.03

  

	1919	1920	1921	1922
December of the preceding year . . . . .	100	100	100	100
January . . . . .	99.10 x 0.21	102.75 x 0.22	94.23 x 0.38	96.61 x 0.26
February . . . . .	105.53 x 0.06	106.81 x 0.05	98.43 x 0.09	94.10 x 0.04
March . . . . .	106.96 x 1.22	106.97 x 1.00	91.82 x 1.74	88.82 x 0.28
April . . . . .	101.91 x 3.10	106.49 x 2.99	90.51 x 2.15	
May . . . . .	108.11 x 0.15	105.58 x 0.07	85.84 x 0.03	
June . . . . .	110.02 x 0.12	94.87 x 0.23	80.76 x 0.01	
July . . . . .	105.19 x 0.28	87.57 x 0.20	78.71 x 0.57	
August . . . . .	100.97	86.86 x 0.09	82.87 x 0.01	
September . . . . .	100.34 x 0.06	80.33 x 0.11	87.04 x 0.02	
October . . . . .	96.02 x 0.32	73.62 x 0.18	91.07 x 0.37	
November . . . . .	96.43	80.20 x 0.11	83.99 x 0.05	
December . . . . .	99.49	80.08	80.13	

With reference to the period more particularly dealt with in the present report, we may note that during the years 1920 and 1921 a fall of about 20 % took place, as compared with the level at the end of the preceding year. The first quarter of 1922 shows a further fall of about 11 %.

We give below, classed in broad categories, the index numbers for different groups of companies for December, 1919, 1920 and 1921, and for March, 1922. These numbers are all calculated on the same basis (100), which represents the level of prices for December, 1918, *i.e.*, immediately after the war:

<sup>1</sup> From 1919 onward corrective coefficients have been introduced for companies the capital of which was increased by the issue of new shares.

N.B. — The figures preceded by the sign "x" correspond to the amount of dividend paid.

	December 1919	December 1920	December 1921	March 1922
Banks . . . . .	109.36	103.17	94.19	90.47
Former railway companies <sup>1</sup> . . . . .	92.09	62.21	50.84	52.09
Land Transport . . . . .	85.28	70.86	58.45	61.46
Maritime transport . . . . .	103.64	83.61	53.97	47.56
Cotton industries . . . . .	119.84	137.77	125.08	115.75
Jute industries . . . . .	95.00	118.18	102.15	108.27
Wool industries . . . . .	104.06	101.47	118.41	118.35
Flax and hemp industries . . . . .	121.76	152.81	155.41	124.64
Silk industries . . . . .	147.95	172.32	153.85	128.62
Mines . . . . .	104.46	74.54	53.23	50.14
Iron companies . . . . .	87.93	47.45	17.77	13.95
Machinery . . . . .	90.23	55.12	32.81	18.12
Automobile industries . . . . .	112.91	72.21	56.29	47.55
Electric industries . . . . .	93.95	67.68	67.95	68.36
Chemical industries . . . . .	93.54	80.26	58.98	54.66
Sugar refineries . . . . .	107.23	108.91	101.54	96.92
Other food industries . . . . .	112.78	106.40	107.33	98.90
Aqueducts . . . . .	100.28	87.13	90.35	87.06
Building and land societies . . . . .	105.07	100.63	100.64	93.23
Miscellaneous . . . . .	104.64	130.50	112.26	103.62
General index figure . . . . .	99.49	79.67	63.84	56.70

The figures in the last column show how few were the groups of companies whose shares reached a higher level in March, 1922, than at the end of 1918. Only textile and miscellaneous companies appear in this class; for certain groups (sugar refineries, other food industries and companies dealing in real estate), the difference is not great. On the other hand the fall in iron foundry shares has been catastrophic; their present value amounts to scarcely 14 % of the price quoted at the end of 1918. These figures are significant. They show that the fall in prices has borne most heavily on those industries which are most greatly affected by the stagnation in business and the economic crisis.

*Prices of commodities; fluctuations in prices of different kinds of merchandise.*

There is a clear relation, not only, as we have just shown, between monetary inflation and stock quotations, but also between this monetary inflation and the prices of all kinds of commodities. The fiduciary inflation caused a considerable rise in prices during the war and the period immediately following it. As inflation slowed down, prices became steadier; and now, when a certain movement towards deflation has been initiated, prices are beginning to fall. The two phenomena have not been completely interdependent and simultaneous, owing to the complexity of the various forces which have been acting upon the mechanism of economic life during the troubled period through which we are passing. It may be noted that certain prices give evidence of a marked state of inertia; the degree of variability of prices differs according to the technical or economic character of each commodity. The level of prices varies, over any period of time, not only in proportion to the amount of currency in circulation, but also in proportion to the rapidity

<sup>1</sup> Railway companies which formerly operated railways and which now take a share in financial operations.



of circulation of money and to the volume of trade. The rapidity of circulation has undergone frequent changes during recent years. It became much lower at the outbreak of war, then again immediately after the war, again at certain moments marked by great social unrest, and also after the economic crisis had begun. At such times, the slackening of the rapidity of circulation usually coincides with the hoarding of notes, as a rule within the country but sometimes abroad also. The volume of trade has undergone various fluctuations which cannot be estimated, even approximately, for want of statistics. The slackest periods were during the war and during the economic crisis.

An approximate idea of the movement of wholesale prices may be obtained by examining the index figures, which have been drawn up by the present author, for some forty classes of goods up to the end of 1920. These calculations have been based upon the simple arithmetic mean, taking as the basis (100) the prices of goods for the five years 1901-1905. The percentages in the table below show the rise in prices as from the beginning of the war.

	Cereals and meat	Other food- stuffs	Textiles	Minerals and metals	Other goods	General index figure
July. . . . . 1914	114.0	127.2	116.9	111.6	108.1	115.6
December . . . 1915	178.2	166.2	170.3	371.1	206.2	214.8
Diff. % between July 1914 and Dec. 1915	+ 56.3	+ 30.7	+ 45.7	+230.7	+ 90.7	+ 85.6
December . . . 1916	205.7	198.7	278.8	594.2	243.7	214.6
Diff. % between Dec. 1915 and Dec. 1916	+ 15.4	+ 19.6	+ 63.8	+ 60.5	+ 18.1	+ 37.2
December . . . 1917	322.9	276.5	515.5	871.9	384.0	459.6
Diff. % between Dec. 1916 and Dec. 1917	+ 57.0	+ 39.2	+ 84.9	+ 46.7	+ 57.6	+ 55.9
December . . . 1918	366.0	418.4	584.3	520.9	509.5	468.9
Diff. % between Dec. 1917 and Dec. 1918	+ 13.0	+ 51.3	+ 13.2	+ 40.2	+ 32.7	+ 2.1
December . . . 1919	420.4	544.9	793.5	706.4	477.1	576.2
Diff. % between Dec. 1918 and Dec. 1919	+ 14.9	+ 30.2	+ 35.8	+ 35.6	+ 6.36	+ 22.9
December . . . 1920	577.8	775.6	813.8	1,123.1	735.6	800.6
Diff. % between Dec. 1919 and Dec. 1920	+ 37.4	+ 42.3	+ 2.6	+ 29.0	+ 54.2	+ 38.9
Diff. % between July 1914 and Dec. 1920	+406.8	+509.7	+596.2	+860.7	+580.5	+592.6

The general index figure for the prices of commodities at the end of 1920 was about seven times as great as the pre-war figure, while the circulation of paper money was more than eight times greater than at the end of June 1914.

As regards the movement of prices for the period 1920-1922, with which period the present report more particularly deals, we give below the monthly index figures, forming a new series starting from 1920, based on a larger number of classes of commodities: 76 for 1920-1921 and 100 from 1922 on.

The index figures given separately for each group of goods are simple arithmetic means, but we also show general index figures which are the simple geometric means of the individual index figures.

INDEX NUMBERS OF WHOLESALE PRICES IN ITALY.

(Basis: average prices in 1920=100)

	Vegetable food- stuffs	Animal food- stuffs	Chem- ical products	Textiles	Minerals and metals	Building materials	Miscel- laneous vegetable products	Other miscel- laneous com- modities	General arith- metic index number	General geo- metric index number
1920										
January . . . .	86.2	81.2	64.2	95.3	75.9	72.0	93.5	78.2	81.25	79.8
February . . . .	91.6	79.5	76.8	106.0	92.7	75.4	100.9	85.8	89.13	87.74
March . . . . .	93.1	82.7	96.8	115.6	104.8	82.2	102.4	92.8	96.41	95.03
April . . . . .	102.7	83.6	110.4	130.8	115.8	96.4	99.8	104.2	106.30	104.58
May . . . . .	102.2	92.9	122.6	104.9	113.2	101.8	97.2	107.8	105.73	104.54
June . . . . .	100.2	101.1	112.8	90.8	99.1	106.3	95.9	105.7	101.18	99.96
July . . . . .	96.8	100.3	100.0	88.3	95.5	108.4	90.2	104.9	97.77	97.11
August . . . . .	100.7	103.4	102.3	94.9	96.6	109.9	91.9	101.4	100.13	99.64
September . . . .	104.8	108.8	100.1	99.6	103.7	109.9	97.5	102.1	104.98	103.25
October . . . . .	107.1	108.0	103.4	97.9	106.5	112.8	100.5	105.4	105.47	105.03
November . . . .	107.7	124.1	107.7	94.0	101.4	112.6	108.7	105.2	107.33	106.31
December . . . .	106.9	126.4	102.8	81.9	92.7	112.6	121.8	106.8	104.97	103.32
1921										
January . . . . .	106.7	120.7	98.1	77.4	88.2	113.3	128.4	107.1	102.89	100.65
February . . . . .	103.4	119.5	89.2	65.4	79.5	117.0	127.3	106.7	98.23	95.09
March . . . . .	107.8	117.4	86.9	63.5	72.0	112.9	123.2	103.9	96.66	92.49
April . . . . .	105.9	115.9	82.9	56.5	69.0	109.1	111.3	105.1	93.51	88.19
May . . . . .	101.5	112.1	76.2	46.6	62.3	106.8	110.0	95.4	87.59	80.74
June . . . . .	97.0	100.5	63.4	45.8	60.4	101.6	95.0	90.4	81.49	75.46
July . . . . .	99.8	109.3	64.9	53.6	60.0	94.6	91.6	86.5	83.28	77.73
August . . . . .	106.7	112.7	67.7	61.7	59.7	92.3	96.1	86.8	86.77	80.97
September . . . .	113.6	124.8	71.2	75.2	58.9	90.9	102.2	92.9	92.89	86.54
October . . . . .	115.8	128.5	74.6	75.6	64.1	90.9	114.4	94.2	95.95	89.63
November . . . .	114.1	125.8	75.7	75.4	65.2	89.7	113.7	93.7	95.27	88.79
December . . . .	115.3	120.6	73.5	79.4	66.0	89.1	113.7	93.8	95.23	88.47
1922										
January . . . . .	111.6	113.7	73.0	72.4	63.9	91.6	112.4	94.3	92.44	86.08
February . . . . .	108.8	112.4	73.0	67.9	61.6	90.9	110.8	92.2	90.08	83.78
March . . . . .	106.7	95.7	71.8	64.9	59.2	84.1	102.8	87.2	85.43	79.21

The downward movement in prices (a symptom characteristic of crises) became noticeable in certain countries at the beginning of 1920. At first it affected raw materials only; later it made itself felt, though not to the same extent, in the case of manufactured articles, foodstuffs

and, finally, retail prices and wages. The fall in prices on the international market came at a moment when in Italy business was still expanding, and the monetary inflation continuing; Italian money was still losing its value, while the dollar and the pound were appreciating owing to the restriction of credit, the withdrawal of notes and the influx into the market of larger quantities of goods. The rise of foreign exchanges as compared with the lira counterbalanced for several months the influence of the fall in prices of most raw materials on the international market. The joint effect of these circumstances on the general level of prices in Italy in the course of the year 1920 was to produce two different waves (similar to those in France, Germany and other countries); one of these movements reached its maximum point in April and the other in November. The depression that took place between those dates was chiefly caused by the sudden fall in textiles on the world market and also, but to a minor extent, by the fall in coal and metals — all raw materials, which are of preponderating importance in economic life and which had previously been specially affected by the rise; in the case of these articles there was an exact correspondence between the tendency to fall and the previous tendency to rise. The partial decrease in prices which occurred in Italy in the spring of 1920 may also be traced to the "strike of purchasers" which followed upon the announcement of the beginning of a general fall in other countries; this abstention on the part of consumers lowered the rapidity of circulation of money and thus held in check the effects of the increased paper inflation; the consequent slackening of business led to the flooding of the market with large stocks of goods which had been held back by producers and traders for purposes of speculation.

Thus in Italy the curve of prices reached its highest point in November, 1920, and afterwards fell definitely and continuously until June, 1921; it then resumed for a time its upward movement and reached a new maximum in October; after that date prices remained comparatively stable until the first weeks of 1922, when they again began to fall. The partial and temporary rise in the summer of 1921 coincided with a rise in the foreign exchange and lasted until, with a large reduction in monetary inflation, exchange rates and prices again began to fall.

If we examine the development of the curve of prices for the various groups of commodities, we realise that in Italy the fall took place first of all in raw materials, and, especially in the case of textiles, minerals and metals, was the direct consequence of the change in economic conditions. The price of foodstuffs moved somewhat irregularly during this period and the rise continued through a considerable part of 1921; this peculiarity as compared with the other groups of commodities is chiefly due to the changes carried out in the food-supply system and to the abolition of political measures for regulating the price of cereals and of bread price-lists in some districts. The abolition of price regulation generally leads to a rise in prices, which is more apparent than real, as it corresponds with the high level attained secretly under the system of control by clandestine supplements to official prices; the disappearance of that system creates an increased demand which is not immediately met by increased production.

The development of prices under the influence of these factors varies not only according to the technical nature of each commodity, but also according to its "economic" nature. It differs, therefore, in the cases of raw materials, semi-manufactured goods, finished products and foodstuffs. It also varies according to the more or less close relations which exist between the home market and the international market. The prices of goods produced and consumed chiefly within the country itself are affected more appreciably and more rapidly by the changes which take place in internal economic conditions (especially changes in the monetary situation), whereas, in the case of commodities in which there is a large foreign trade, fluctuations in prices are more directly determined by the variations in exchange rates, and the difference between the home and foreign prices then becomes less marked. The following table, in which the separate index numbers for these various groups of commodities have been calculated, shows the difference in the price curves between the two groups. These index numbers (based on the geometric mean) have only been calculated from 1921 onwards, taking as basis the average prices in that



year; they are based on the prices of 100 different commodities, but it should be pointed out that the group "finished products" is relatively small owing to the lack of the official quotations necessary for making the calculations.

1921	Food-stuffs	Raw materials	Semi-manufactured articles	Finished products	Commodities produced & consumed in the home market	Imported commodities	Commodities for export	General index number
January . . .	102.04	127.07	121.73	109.83	106.88	125.06	120.93	114.30
February . . .	99.90	113.74	111.33	108.89	102.92	114.68	107.83	107.36
March . . . .	101.13	105.76	107.70	107.82	104.02	105.42	104.95	104.60
April . . . . .	99.87	98.61	100.41	109.76	103.21	97.37	96.62	100.46
May . . . . .	93.86	90.24	89.46	99.47	95.76	88.14	87.84	92.22
June . . . . .	86.02	84.49	83.60	93.90	86.60	84.14	86.04	85.67
July . . . . .	89.64	85.82	87.65	90.25	89.04	87.04	86.46	88.08
August . . . .	94.91	87.91	91.84	90.92	92.94	90.61	88.52	91.70
September . .	105.16	94.18	96.55	94.88	100.35	96.19	99.95	98.84
October . . .	107.44	98.00	100.12	95.44	103.23	99.40	101.95	101.74
November . .	106.04	99.65	99.93	96.32	102.95	100.31	100.64	101.79
December . .	103.27	98.07	99.79	97.73	101.54	98.93	99.25	100.38
1922								
January . . .	100.66	97.64	98.93	95.93	99.75	97.57	98.50	98.88
February . . .	98.23	95.01	96.06	92.43	96.95	95.07	96.35	96.23
March . . . .	91.68	89.43	93.11	87.81	90.48	90.85	94.08	90.98

The prices of raw and semi-manufactured articles are much more subject to variation than the prices of finished products, and in the first half of 1921, they also fell much more than the latter. Foodstuffs show greater stability; they rose appreciably during the second half of the year. Commodities produced and sold chiefly in the home market are subject to less variation in price than commodities which are exchanged in large quantities with foreign countries; the curves of these commodities follow fairly closely the rates of exchange in countries in which the currency has not greatly depreciated.

#### *Internal and external prices of commodities.*

The Statistical Memoranda on Currency, Public Finance and Trade annexed to the minutes of the Brussels Financial Conference contained some very interesting tables designed to show in various countries "the fluctuations in external and internal wholesale prices in terms of various national currencies" in order to establish the approximate comparison between the relative purchasing power of certain currencies at home and in the United States. The effects of recent monetary movements on the prices of goods and on foreign exchange rates, may be seen from calculations of a similar kind to those contained in the work referred to, comparing the development of internal and external prices in the case of Italy. The following table, therefore, gives for Italy the external price index numbers; they are the index numbers of the "Economist" converted into Italian currency, that is to say, the figures obtained by multiplying these index numbers by the percentage rate of the pound sterling on the Italian Stock Exchanges (the rate

of the pound divided by 25.22 and multiplied by 100). These index numbers of prices abroad (calculated on the 1901 to 1905 basis) are placed opposite the Italian index numbers (index numbers of home prices) up to 1919 (old series) and from January, 1920, onwards (new series), the reference always being to the 1901-1905 basis. The calculation of prices abroad has been made according to the average rate of exchange for the month in preference to the rate on any particular day, as the latter might have been influenced by special circumstances. In order to compare home and foreign prices, we give the ratio between the respective index numbers, multiplied by 100 in the usual way.

	British index number	Monthly rate of exchange on London	Rate of exchange on London as compared with parity	English index number converted into Italian currency (extern. prices) ( $a \times c$ )	Italian index number (internal prices)	Ratio between external and internal prices ( $a \times 100$ )
	<i>a</i>	<i>b</i>	<i>c</i>	<i>d</i>	<i>e</i>	<i>f</i>
June 1914	115.9	25.26	100.15	116.1	117.0	99.2
December "	127.3	25.86	102.53	130.5	119.7	109.0
June 1915	147.7	28.53	113.12	167.1	161.3	103.6
December "	165.1	31.00	122.91	202.9	214.8	94.5
June 1916	191.5	30.41	120.57	230.9	242.8	95.1
December "	223.0	32.62	129.33	288.4	294.6	97.9
June 1917	256.6	33.98	134.73	345.7	362.9	95.3
December "	263.2	39.67	157.29	414.0	459.3	90.1
June 1918	277.5	43.68	173.19	480.6	523.5	91.8
December "	277.0	30.25	119.94	332.2	468.9	70.8
January 1919	265.9	30.31	120.18	319.6	410.1	77.9
February "	263.8	30.31	120.18	317.0	403.9	78.5
March "	259.4	30.96	122.76	318.4	410.1	77.6
April "	262.4	34.64	137.35	360.4	417.9	86.2
May "	272.2	37.24	147.66	401.9	426.3	94.3
June "	281.3	37.33	148.02	416.4	451.0	92.3
July "	293.2	37.55	148.89	436.5	456.6	95.6
August "	295.9	39.48	156.54	463.2	465.5	99.5
September "	299.4	40.94	162.33	486.0	468.3	103.8
October "	308.9	42.56	168.75	521.3	492.0	106.0
November "	317.5	48.81	193.54	614.5	552.9	111.1
December "	334.7	50.08	198.57	664.6	576.2	115.3
January 1920	353.1	51.60	204.60	722.4	639.2	113.1
February "	370.9	61.77	244.92	908.4	701.2	129.5
March "	379.6	70.55	279.74	1,061.9	758.5	140.0
April "	374.2	90.42	358.52	1,341.6	836.3	160.4
May "	372.7	76.92	305.00	1,136.7	831.8	136.7
June "	356.7	67.14	266.22	949.6	796.0	119.4
July "	358.0	67.30	266.85	955.3	761.3	125.5
August "	352.0	74.77	296.47	1,043.6	787.8	132.5
September "	347.5	80.86	320.62	1,114.2	825.9	134.9
October "	326.1	89.45	354.68	1,156.6	829.8	139.4
November "	299.7	95.13	377.20	1,130.5	844.4	133.9
December "	269.3	99.96	396.35	1,067.4	825.8	129.3
January 1921	255.3	105.85	419.71	1,071.5	809.5	132.4

	British index number	Monthly rate of exchange on London	Rate of exchange on London as compared with parity	English index number converted into Italian currency (extern. prices) $(a \times c)$	Italian index number (internal prices)	Ratio between external and internal prices $(\frac{a}{c} \times 100)$
	a	b	c	d	e	f
February 1921	235.3	106.40	421.89	992.7	772.8	128.5
March »	231.7	102.51	406.46	941.8	760.5	123.8
April »	224.0	85.80	340.21	762.1	735.7	103.6
May »	223.2	74.99	297.34	663.7	689.1	96.3
June »	218.6	75.77	300.4	656.7	641.1	102.4
July »	218.1	80.02	317.3	692.0	655.2	105.6
August »	219.0	85.52	339.1	742.6	682.7	108.8
September »	223.8	87.82	348.2	779.3	730.8	106.6
October »	208.5	97.76	387.6	808.1	754.9	107.0
November »	202.6	96.27	381.7	773.3	749.5	103.2
December »	198.0	93.95	372.5	737.6	749.2	98.5
January 1922	194.7	96.97	384.5	748.6	727.3	102.9
February »	193.6	89.15	353.5	684.4	708.7	96.6
March »	195.3	86.07	341.3	666.6	672.1	99.2

Reservations should doubtless be made with regard to the purely approximate character of the figures, of the differences in significance due to differences in method and in the list of commodities taken as basis for British and Italian index numbers. Nevertheless, the variations in the ratio given in the last column of the table remain very suggestive. Generally speaking, this ratio cannot deviate far from 100 between countries which possess a regular monetary system and in which commercial dealings can be carried out with perfect freedom and ease, as it must then be determined by the State of the exchanges and the level of prices in the two countries concerned. Under normal conditions, the exchange rate cannot deviate from par beyond the "gold point", and the price of goods in one of the two countries cannot go beyond what might be called the "commodity point", that is to say, in excess of cost (transport, insurance dues on entering and leaving the country, taxes, etc.) for carrying commodities from one country to the other. The effect of this transport is to raise prices in the second country and lower them in the first. Between countries where normal conditions prevail, the ratio can only deviate from 100 if a change occurs in the significance of the index numbers of prices, or in "commodity point" itself. The table shows that since the beginning of the war the ratio has deviated from 100 in all cases under review, and that the divergencies have often been considerable.

For a large part of the period in question, every kind of circumstance capable of affecting the equilibrium between the two groups of prices has been operative. The charges for the transport of goods from England to Italy have increased heavily; the monetary situation became most irregular, especially in Italy during the years 1918, 1919 and 1920; various hindrances were placed in the way of commercial dealings up to 1920, and these hindrances were kept in force even later, although in a less degree. There were transport difficulties in addition and Government intervention both in the foreign currency market (control of the market, gold export prohibition, prohibition of certain transactions, monopoly of the purchase of currency, artificial stabilisation of exchange rates) and in the commercial market (direct State participation in industry, commerce and consumption, monopolies, prohibition or regulation of imports and exports, of foreign exchanges and of production and consumption, control or regulation of the prices of goods, sometimes involving discrimination between home and foreign prices.) All these circumstances caused the ratio between home and foreign prices to deviate from 100. As is shown by the table, home prices were generally higher than foreign prices during the war and the first months after



the declaration of peace. This phenomenon is due to various reasons, chief among which are the rise in the cost of transport and the adoption in England of official prices for coal and metals much lower for home consumption than for export. The intervention of the Italian Government in the currency market also greatly influenced the position by pegging the exchange rates towards the end of the war and during the period immediately following. Even for several months after the abolition of this system, home prices remained higher than prices abroad in consequence of further intervention undertaken with a view to lessening the effects of variations in exchange rates. The table shows that at times internal prices were as much as 30 % higher. These high prices would naturally have occasioned an increase in imports had not restrictive measures been taken to prevent it; these measures were the true cause of the large difference. The removal of the restrictions on the rates of exchange and on trade brought about a complete reversal of the situation during the last months of 1919, the whole of 1920 and part of 1921, when external prices greatly exceeded internal prices. The same phenomenon may be observed in all countries with a depreciated and still depreciating currency and is due to the fact that the foreign currency market responds far more quickly to variations in monetary circulation than the commodity market, owing to the well known inertia of commodity prices. The higher level of external prices must also be attributed in part to the fall in freight rates and to the gradual discarding in England of the policy of establishing different prices for home and foreign consumption. These factors had previously helped towards lowering external prices. The difference between foreign and home prices varied considerably during 1920 by reason of the irregular fluctuations in the exchange market — the violent rises being due to fears that the internal situation would become worse and to the anticipation of further issues of paper money in Italy. From the spring of 1921 onwards, external prices ceased to be higher in any serious degree, and the ratio shown in the last column of the table began to oscillate with comparative steadiness round the figure 100. This tendency towards stability shows, as we have already pointed out on several occasions, that the economic situation in Italy is gradually becoming normal again. The "armour of war" has been cast aside and the barriers to trade removed; goods can now be exchanged without difficulty and in this way the equilibrium between the different kinds of markets is being re-established. The "gold point" does not yet exercise its regulating power on the fluctuating exchanges rates, but a comparatively steady "commodity point" tends to lessen the divergences between the prices of the commodities; and, assuming that no further fiduciary inflation takes place, prices of goods will no longer be slow to follow variations in exchange rates. If a rapid monetary deflation were to take place (which is clearly improbable), the inertia of the price of goods as compared with exchange rates would cause the ratio to descend considerably below 100.

#### *Foreign Exchanges.*

The relation that we have traced between the development of currency inflation, the quotations on the Stock Exchanges, and commodity prices, also exists between the development of currency inflation and the rates of exchange.

In the following table we give the monthly rate of exchange in respect of those foreign countries which have the most stable currencies and with which Italy carries on the greatest amount of business, taking the quotations on the Italian market.

		Paris	London	New York	Switzerland
June	1914	100.35	25.26	5.16	100.22
December	"	103.31	25.86	5.30	101.60
June	1915	109.22	28.53	5.96	110.84
December	"	112.23	31.00	6.57	123.56
June	1916	107.62	30.41	6.37	120.64
December	"	117.20	32.62	6.85	135.18

		Paris	London	New York	Switzerland
June	1917	124.41	33.98	7.13	143.47
December	»	144.87	39.67	8.29	189.90
June	1918	161.02	43.68	9.10	230.70
December	»	116.25	30.25	6.34	130.00
January	1919	116.00	30.31	6.33	129.50
February	»	116.00	30.31	6.33	129.50
March	»	116.52	30.96	6.49	132.30
April	»	124.54	34.64	7.39	151.50
May	»	127.02	37.24	7.90	159.62
June	»	125.43	37.33	8.05	151.32
July	»	121.67	37.55	8.43	151.35
August	»	118.43	39.48	9.24	155.12
September	»	115.95	40.94	9.78	174.86
October	»	118.22	42.56	10.14	181.34
November	»	126.13	48.81	11.87	217.75
December	»	121.92	50.08	13.07	241.67
January	1920	120.51	51.60	13.99	251.31
February	»	128.89	61.77	18.21	296.14
March	»	136.21	70.55	19.03	321.24
April	»	142.40	90.42	22.94	410.50
May	»	134.86	76.92	19.86	352.78
June	»	133.72	67.14	16.89	308.98
July	»	141.13	67.30	17.28	305.53
August	»	147.65	74.77	20.54	341.98
September	»	154.97	80.86	22.98	373.74
October	»	168.32	89.45	25.72	408.33
November	»	165.89	95.13	27.61	427.55
December	»	169.80	99.96	28.57	441.03
January	1921	181.24	105.85	28.25	442.10
February	»	196.81	106.40	27.34	448.12
March	»	185.29	102.51	26.04	446.86
April	»	157.81	85.80	21.65	377.81
May	»	157.92	74.88	18.73	335.63
June	»	161.48	75.77	19.84	339.64
July	»	171.77	80.02	21.90	363.55
August	»	180.92	85.52	23.51	393.09
September	»	172.66	87.82	23.54	404.82
October	»	183.00	97.76	25.33	460.41
November	»	174.45	96.27	24.29	456.82
December	»	176.97	93.95	22.69	439.85
January	1922	187.13	96.97	22.96	445.61
February	»	178.82	89.15	20.38	399.12
March	»	176.39	86.07	19.56	380.16

Just as the gradual increase of notes in circulation has diminished the purchasing power of Italian money as regards goods, capital and services, so it has also decreased the value of the Italian currency in comparison with currencies of foreign countries in which paper inflation has either not taken place, or has done so in a lesser degree than in Italy.



As our table shows, the increase in the rate of exchange was relatively slow during the first years of the war. It became more marked in the last two months of 1917; then the exchange dropped very considerably in July and August, 1918, and remained at quite a low level until March, 1919. Since then there has been a pronounced rise, particularly in respect of the dollar, the rate of which rose in April, 1920, to about  $4\frac{1}{2}$  times parity. From May to July, 1920, there was a sudden depreciation which brought the price of the dollar to about 330 % of par. A fresh rise brought the exchange to the highest rate ever registered, the dollar exceeding 550 % of par. Then there was a fresh improvement in the spring of 1921, less marked than the previous one, during which, in May, the price for the dollar fell to 365 %. The curve then rose but more gradually, the rate of the dollar reaching 490 % in October, after which it improved for the third time, during the last months of 1921 and the beginning of 1922. This time, however, the improvement was slower and more tentative, which gives ground for the hope that the curve will become relatively stable, in contrast with the violent fluctuations which have characterised the last four years.

The rise which occurred at the end of 1917 and during the first months of 1918, must be attributed to the paper inflation and the sudden economic crisis caused by the Battle of Caporetto. The improvement which occurred in the second half of 1918 and the first three months of 1919 was due to the policy adopted at that time with a view to stabilising the exchanges. The rise which then ensued, followed by the fluctuations mentioned above, is a result of the inevitable abandonment of the whole policy of the artificial regulation of exchanges and the inflation of circulation, whereas the recent tendency to stability and to improvement would seem to be directly due to the deflation of the currency which has now begun. The slight and merely passing influence felt on the exchanges by the failure of the Banca Italiana di Sconto is a most significant symptom; it shows that the large issue of notes which occurred unexpectedly at the end of 1921 and the beginning of 1922 did not greatly affect the market, but merely led to the creation of hoards, which were later rapidly dispersed.

Great interest has been taken in the rates of exchange in recent years, and public opinion has been much concerned with this question. There has been a tendency to regard the rise in the exchanges as an evil in itself, and not as a mere symptom of abnormal economic conditions. When the currencies of two countries are inflated unequally, a new parity is created between these currencies, which can be estimated approximately by means of the ratio between the index numbers of the prices of commodities, if these index numbers are calculated by the same method and on the same basis. When the degree of inflation in two countries remains stable, and complete freedom of exchange between those two countries exists, the relations between the index numbers of prices and the rate of exchange itself remain fixed, except for slight fluctuations round the new parity. This stability in inflation — and, therefore, in the relation between index numbers and exchanges — is the desideratum required by present conditions, since it removes an element of uncertainty which constitutes a danger to the whole economic life. The instability of currency inflation renders uncertain the development, even in the near future, of the prices of goods, capital and services, and of the exchanges, and the fact that these variations are neither simultaneous nor proportional causes a temporary depreciation of certain elements of economic life to the detriment of others.

The instability of the degree of fiduciary inflation creates conditions favourable to speculation in the price of goods and in the rates of exchange. Doubtless speculation in the exchange has been widely practised during the last few years, but its effects have always been very limited. The view held in many quarters that speculation is the cause of the rise in the exchanges is devoid of foundation; certain fluctuations are due to speculation, but the speculation very often only anticipates the changes, which is not surprising, since all speculation is in reality only the process of reckoning with events which are likely to happen in a more or less distant future. Speculation in exchange is not limited to "professionals" who live more or less in a banking atmosphere; it is also practised by private persons — often by small capitalists — who hoard



notes or other bills, either in the country or abroad, in the hope of a future rise. It is to the collection or dispersal of such hoards that certain fluctuations in recent years are due. Speculation on the exchange is an international phenomenon, but it has affected the Italian exchange, for instance, very much less than the German. The fact that certain fluctuations have occurred simultaneously and in a similar manner in the exchanges of several countries is partly due to the fact that speculation is practised in connection with the currencies of various countries and at the same time affects many different currencies. The fluctuation which occurred in 1920, is a case in point; the remarkable drop in the exchange in 1921 must also be attributed to circumstances of an international nature, and particularly to the large credits granted by countries with a sound currency to States with depreciated currency, with a view to promoting the export of goods and to alleviating the economic crisis.

#### CONTROL OF FOREIGN EXCHANGES.

*Various phases of control during the war and after the war: its effects.*

The Brussels Conference (Commission on Currency and Exchange) adopted the following Resolution with regard to the control of the exchanges:—

*"Attempts to limit fluctuations in Exchange by imposing control on Exchange operations are futile and mischievous. In so far as they are effective they falsify the market, tend to remove natural correctives to such fluctuations, and interfere with free dealings in forward Exchange which are so necessary to enable traders to eliminate from their calculations a margin to cover risk of exchange, which would otherwise contribute to the rise in prices. Moreover, all Government interference with trade, including Exchange, tends to impede that improvement of the economic conditions of a country by which alone a healthy and stable exchange can be secured."*

In Italy the question of establishing control over the exchanges, in order to regulate the market, to avoid fluctuations if that be possible, and to limit the rise in prices, came to the fore towards the end of 1917, when, following upon the Caporetto disaster, the exchanges suddenly rose, thus still further increasing the economic disturbances of that critical time. It was then that a decision was taken to establish a national Exchange Institute, with a monopoly of the business in foreign currencies. The object of the Institute was to prevent speculation in the exchange — speculation which many people erroneously averred to be one of the chief causes of the tension then existing in the rates of exchange. Nothing but an absolute monopoly of currency operations, eliminating speculation and centralising currency operations abroad, could prevent the sudden minor fluctuations which so frequently occurred. The centralisation made it easier to balance debts and credits abroad by transferring our surplus credits in one country to another country in which our balance showed a deficit. In view of the artificial conditions prevailing throughout the economic life of that time, this balance could be better and more rapidly effected by an official monopoly, than by the usual methods of arbitration employed by individual banks and bankers. As a matter of fact, owing to the loans which it was then contracting with the American and British Governments, the Italian Government was at that time the principal holder and seller of foreign currencies, just as, by reason of its many economic functions, it was either directly or indirectly the principal "consumer" of foreign currencies. In these conditions it became possible for the Exchange Institute to control the market, in that it could without difficulty establish relations with the corresponding official bodies in the other allied countries. In order to assure to the Institute the control of the supply of currencies, it was decided that for many classes of goods, export licences should not be granted by the customs

authorities unless the exporter undertook to hand over to the Institute the foreign currency accruing from the sale of such goods abroad. This obligation, in its original and subsequent forms, involved the export trade in tedious formalities and hindrances of all kinds. With a view to checking the demand for foreign currency, both when the Institute was founded and also later — and above all during periods of crisis in the exchange — the importation of foreign goods was made subject to various restrictions and also to the consent of the Institute. Trade with foreign countries was considerably hindered, and indeed, a régime of this kind was only possible during the war and the period immediately following it, owing to the abnormal situation which made the State the principal customer for most of its industries, and the principal importer and purveyor of many classes of goods. The Exchange Institute came into operation in March, 1918. But, as we have already noticed, its intervention did not prevent the exchanges from continuing their upward trend.

The establishment of a monopoly of the exchange market having thus proved to be inoperative, a fresh policy was adopted — a replica of that in force between France and England. In order to bring down the rates of exchange, the help of England and the United States was called in, and between June and August, 1918, a series of agreements was concluded with the financial administrations of England, the United States and France, and afterwards with those of the neutral countries.

The object of these agreements was to control and stabilise the exchanges by steadily absorbing Italian currency into foreign markets and supplying quantities of foreign currencies to meet the economic needs of Italy. This artificial system remained in force until March, 1919, and was characterised by stable and very low rates of exchange (116.25 to the French franc, 30.31 to the £ sterling and 6.33 to the dollar). In this way the rates were kept at a much lower level than would have been the case in a free market. As the administration could not provide the enormous quantity of currency demanded at these low rates, the system would not work unless the demand were rigorously cut down by the multitudinous restrictions introduced into economic life during the war. In normal times, of course, the holder of a monopoly may fix either his price or the volume of his sales as he pleases, but he cannot do both at once. It was possible to operate this system on a level of prices much lower than would have been the case had economic forces been allowed free play, owing to the fact that the control of the demand and supply of foreign currencies enabled the official price to be maintained at a steady level. The stability and the low exchange rate gave rise to false interpretations of the real state of affairs, and concealed from the public the real cost that had been borne to secure these conditions. The figures given in a preceding paragraph show that at this time the commodity prices abroad were greatly below home prices — a fact which made the importation of goods a very lucrative operation. It is true that restrictions were placed upon imports, but they none the less reached a much higher level than if the difference between home and foreign prices had been lessened or abolished through the existence of a free market in foreign currencies. The stability and the low rate of the exchange were only secured and maintained by increasing our debts to foreign countries and, therefore, at the cost of the national wealth<sup>1</sup>.

The regime of inter-allied credits ended in March, 1919, and the credits to maintain and stabilise the exchanges were consequently withdrawn. The exchanges began to rise, slowly

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<sup>1</sup> In a note entitled the *Circulation of Paper, Trade and the Foreign Exchanges* (August, 1920) M. Bonaldo Stringher, Director of the Banca d'Italia, pointed out that it was possible for this system to work effectively, because the Italian Treasury was able to dispose for this purpose, between March, 1918, and June, 1919, of American and British credits amounting to 8,900,00 gold lire, and he questioned "whether the extensive credits, causing a considerable increase in our foreign debts to an extent which exceeded our powers of reconstruction, did not perhaps belong to the factors that concealed the real character of the present situation."



at first, then in a more marked manner. The change in the situation necessarily entailed the adoption of fresh legislative measures with regard to exchange transactions. Hostilities having ended, strong opposition was displayed in commercial and industrial circles both to the Exchange Institute and to the whole apparatus of control invented for the purpose of restricting the importation of goods and regulating purchases of currency. It was no longer possible to place a strong curb upon the demand for currency, in order to maintain rates at an artificially reduced level. To do so would have meant contracting fresh foreign debts on an excessively large scale.

As a result of the inevitable increase of foreign trade, the Institute was obliged to refuse an ever-growing demand for currency, even before the inter-allied loans were closed. Moreover, the funds deposited in Italy by foreign banks tended to diminish. The continuance of monopoly became more and more difficult. In the course of the animated discussions to which this serious question gave rise in the spring of 1919, there was a general call for the abolition of the Exchange Institute and for a return to freedom in commercial transactions, leaving the course of exchange subject to the influence of economic factors.

The monopoly of foreign currency operations was, therefore, formally abolished by the Decree of May 13th, 1919, but the Exchange Institute was allowed to remain. It continued to acquire for the Government such foreign currency as was necessary to make the large settlements involved by the commercial operations of a State, which could no longer draw upon inter-allied credits. The chief function of the Institute, however, was to act as a check upon foreign currency transactions, in order to prevent or limit the exportation of capital, and also in order to watch the market, put down speculation and thus keep fluctuations of the rates of exchange within due limits. The Institute's monopoly was abolished, but at the same time freedom was not restored. Permission to undertake currency transactions on their own account was granted only to the banks of issue, to four large private banks, and to a small number of banking establishments and bankers who were already acting as agents for the Institute or subsequently received authorisation from the Minister of the Treasury. Establishments dealing in foreign currency business were still obliged to keep separate accounts and records for operations of this kind, and to submit to the control of the Exchange Institute as regards these operations. It was laid down as a principle that authorised establishments should not sell currency except for payments of goods, either imported, or to be imported, for meeting obligations contracted abroad with the authorisation of the Institute, for repayment of credits in lire granted by foreign banks to Italian banks, for supplying money for the legitimate requirements of persons residing outside Italy, but possessing property therein, or of persons going abroad for business or professional purposes. This control was placed wholly in the hands of the various authorised banks, and was naturally exercised in an unequal and often purely formal manner. It did not succeed in preventing the formation by third parties of stocks of foreign currency for purposes of speculation. For certain special operations the authorisation of the Institute had to be obtained in advance. This system of restrictions chiefly affected the sale of currency by authorised bodies; it was less effective as regards the buying and hoarding of the currency itself. The privilege of engaging in this particular branch of banking, even under surveillance, was in great demand and was considered highly lucrative. The comparatively limited number of holders of the privilege led many of the smaller banks and bankers to demand an extension of the number of authorisations. The privilege lasted for about two years and appears to have proved particularly profitable to the four large banks, and to have led to the formation of innumerable business relations abroad.

Under this new system, exchange rates were no longer periodically fixed by the Exchange Institute, but were determined on the Stock Exchange. Theoretically the rates depended upon the flow of supply and demand; but in practice it became much easier for a small number of persons to carry on those very speculative operations which it was desired



to avoid. The abolition of the monopoly did not at once have any marked influence on the quotations of the exchanges. As is shown by the figures given above, the level remained comparatively low for some months; but, towards the end of the year 1919, the last credits held by the Government became exhausted, the economic situation of Italy became worse, international monetary difficulties increased, and as a result a considerable rise took place. With the exception of the temporary period of depreciation already referred to, that rise continued and became more accentuated in 1920. The new upward movement of the rates was a proof of the ineffectuality of a system of artificial restriction in the face of an economic and monetary situation which inevitably involved a diminution of the purchasing power of Italian currency. Nevertheless, in the course of the year 1920, numerous schemes were proposed in order to improve the exchange by placing various restrictions upon the production, consumption and export of goods, and to enable the Exchange Institute to exercise stricter control over exchange operations. The decree of April 18th, 1920, strengthened the monopoly of the banks and other authorised establishments, but prohibited them from selling to anyone whatever, even to their own branches, commercial bills on foreign countries or from speculating in any manner on the exchange market. This prohibition, however, did not have any great practical effect. Further restrictions on foreign trade were introduced by the decree of April 24th, which prohibited the incurring of obligations abroad in Italian lire for the purchase of goods or for any other reason, without previous authorisation from the Exchange Institute. It authorised the Treasury to reserve to itself the right to acquire, through the Institute, certain specific categories of foreign currencies, and, lastly, it prescribed the currency in which payment of goods exported from Italy should be made, according to the country for which they were destined. The object of this last measure was to prevent the accumulation of depreciated currency in Italy, and, conversely, to stimulate a demand for Italian lire in certain foreign countries. It was based upon the mistaken idea that the effect produced on the currency market varies according to whether a demand for Italian lire is created abroad or a corresponding supply of foreign currency is created in Italy. The obligation to conduct in Italian lire export business transactions with countries having a depreciated currency, proved at times a hindrance to trade. The obligatory delivery of foreign currency to the Institute was first introduced in respect of the export of silk and hay. This obligation was gradually, but very considerably, extended, and proved a hindrance to the trade in the articles concerned, as the outflow of goods across the frontiers was made subject to the production of a certificate declaring the delivery of the appropriate sum in foreign currency to one of the authorised banks, or to giving an undertaking that the sum would be so delivered.

Despite all these measures for the restriction of currency operations, the rates of exchange still showed a pronounced upward tendency. The control of the home market henceforth exercised an ever-diminishing influence, even as regards temporary fluctuations in the rates, owing to the increased freedom permitted in economic affairs as time went on, and it became impossible to exercise any influence on foreign countries. On the other hand, experience of the inefficacy and undesirability of the system of control gave rise to an ever-growing popular demand for complete freedom.

That agitation, begun by small banks, led to a mitigation of the rigour of the system. According to the decree of January 24th, 1921, only the banks of issue had access to the consortium which controlled the Exchange Institute. Their powers were confirmed as regards supervision and control over authorised establishments and over currency purchased on the Stock Exchange, but the requirements with regard to the export of goods were reduced, in particular as regards currency to be used in payment. The Institute was also authorised to allow other relaxations. On the other hand, fresh measures were introduced to tighten the control of the export of capital.

Even in this attenuated form, the hand of the State weighed heavily on exchange operations, and was moreover clearly ineffectual. The economic needs of the country were eventually met by the Decree of June 16th, 1921, which abolished the restrictions, leaving in force only the

regulations regarding the export of capital and the investment of funds abroad. The Exchange Institute maintained only one of its former functions — that of collecting the foreign bills necessary to enable the Treasury to meet State payments abroad. This function is limited, and is likely to become even more so as the Government liquidates its special supply administrations; in normal times it was the duty of a special department of the Treasury, and the day is probably not far distant when the Exchange Institute will have ceased to exist.

The statistical data concerning the purchases and sales of currency effected by the Exchange Institute, which cannot be given here, show that the operations were considerable, particularly as regards the dollar and the pound sterling, throughout the whole period of absolute monopoly, and while the Government was still making large payments abroad. The large decrease which followed, particularly in the second half of 1921, was probably due to the fact that the Treasury had also recourse to other organisations in order to procure currency.

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By putting an end to direct paper inflation, by initiating a movement towards deflation by taking a decisive step towards the improvement of State finances, and by removing the restrictions on exchange operations, Italy has so far fully complied with the essential monetary recommendations of the Brussels Conference. Of late there has been a slight rise in the value of the currency, and under present conditions a period of relative stability of both exchange rates and prices may be anticipated, apart from the fluctuations caused by the usual variations in the volume of demand and supply as regards foreign currencies — variations which in some cases are due to seasonal causes. This stability would be even further assured if we could follow a financial policy of avoiding large issues of Treasury bonds and restricting indirect forms of fiduciary inflation caused by State operations. Apart from any influence which the inter-State agreements at present under discussion may exercise on the exchanges and on monetary relations, it appears as if the approximative stability in the exchange rates and in prices which has either already been attained or is just about to be reached, would be the best result that the monetary policy of Italy could aim at. Such a stability would eliminate from economic life a formidable element of risk. After great changes during the first three years of peace, the distribution of income has now, to a very great extent, been adapted to the new scale of prices, and the great and rapid improvement in our currency, which is in certain circles affirmed to be desirable, would infallibly prove disastrous on account of the upheavals to which it would give rise and the incalculable consequences which would ensue.

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### Part III.

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#### COMMERCIAL MEASURES.

##### DEVELOPMENT OF FOREIGN TRADE IN RECENT YEARS.

*The economic and material importance of the trade balance: situation before and since the war.*

The development of foreign trade from 1913 up to 1920 may be summarised in the following figures (which exclude the trade in precious metals):

	Imports Lire	Exports Lire
1913	3,645,638,975	2,511,638,537
1914	2,923,347,553	2,210,404,199
1915	4,703,550,316	2,533,443,747
1916	8,390,276,088	3,088,279,771
1917	13,990,209,501	3,308,515,235
1918	16,038,674,151	3,344,706,719
1919	16,623,334,212	6,065,742,072
1920	26,853,488,368	11,774,116,058

These figures show a most remarkable progressive increase in the economic volume of the two branches of foreign trade. The enormous increase shown by these figures is, however, chiefly due to the great rise in prices; the actual volume of trade continued to diminish during the years of the war period owing to the diminished production of numerous articles, of the practical difficulties in the way of the conduct of business and of the legal obstacles hampering international trade. The increase which took place in the course of the two years after the armistice was not sufficient to cause the volume of trade in 1920 to reach the level attained in the last year before the war. These statements are supported by quantitative index numbers indicating the variations in the volume of trade.

The following table shows separately the quantitative variations and the price variations by using figures proportional to a basis (100) corresponding to the level of prices and the quantity of goods in the preceding year.



*Percentage variations in the volume of trade as compared with the preceding year.*

	Imports			Exports		
	Variations in quantity and price	Variations in price	Variations in quantity	Variations in quantity and price	Variations in price	Variations in quantity
1914	80.19	101.43	79.06	88.01	99.66	88.30
1915	160.90	141.19	113.96	114.61	114.30	100.27
1916	178.38	153.72	116.04	121.90	134.70	90.50
1917	166.74	180.93	92.16	107.13	146.46	73.15
1918	114.64	113.74	100.79	101.09	134.68	75.06
1919	103.65	100.65	102.98	181.35	116.90	155.13
1920	161.54	169.29	95.42	194.11	150.88	128.65

By multiplying these annual index numbers together and by expressing the quantities for the year 1913 by 100, we obtain for 1920 the following proportional numbers:

	Imports	Exports
Total variation in the movement of prices and quantities . . . . .	736.61	468.74
Variation in the movement of prices . . . . .	771.89	533.83
Variation in the movement of quantities. . . . .	95.43	87.80

Although the value of trade in 1920 was more than seven times greater than in 1913 as regards imports, and nearly five times greater as regards exports, the volume of trade shows, nevertheless, as compared with 1913, a decrease of 4.5 % in the case of imports and 12.20 % in the case of exports as compared with 1913.

In order to show for the same period the quantitative variations in the chief economic categories of the goods imported and exported the table below shows index numbers (expressed in all cases as percentages of each preceding year) representing the quantities of goods imported and exported, and in the last column the final index numbers which express the ratio between the movement in 1920 and the movement in 1913.

	1914	1915	1916	1917	1918	1919	1920	% Diff. between 1913 & 1920
Raw materials:								
Imports. . . .	83.86	126.39	97.54	66.47	91.29	122.88	94.58	72.92
Exports. . . .	<b>92.15</b>	<b>60.25</b>	<b>106.70</b>	<b>66.91</b>	<b>99.86</b>	<b>141.88</b>	<b>130.44</b>	<b>73.26</b>
Semi-manufactured articles:								
Imports. . . .	82.36	99.73	112.62	116.69	102.32	79.25	114.36	100.10
Exports. . . .	<b>84.71</b>	<b>130.15</b>	<b>85.35</b>	<b>73.14</b>	<b>68.56</b>	<b>212.10</b>	<b>105.42</b>	<b>105.50</b>
Finished products:								
Imports. . . .	79.89	66.78	210.95	110.48	88.66	88.95	128.63	126.13
Exports. . . .	<b>83.90</b>	<b>132.02</b>	<b>100.14</b>	<b>74.69</b>	<b>62.44</b>	<b>158.45</b>	<b>150.22</b>	<b>123.12</b>
Foodstuffs and live animals:								
Imports. . . .	65.23	166.44	107.24	102.30	116.90	111.64	72.19	112.21
Exports. . . .	<b>93.88</b>	<b>68.62</b>	<b>72.47</b>	<b>73.58</b>	<b>112.17</b>	<b>97.35</b>	<b>130.10</b>	<b>48.80</b>

Trade in 1920 shows a large decrease as compared with 1913 in the case of raw materials, both imported and exported; semi-manufactured products returned to the 1913 level as regards imports and were slightly above it as regards exports; both the import and export of finished products were considerably greater than in 1913; in the case of foodstuffs and live animals an increase of imports took place, though smaller than might have been expected; the volume of exports, on the contrary, decreased by more than half as compared with 1913.

A further comparison of the volume of trade in 1920 and in 1913 brings to light certain characteristic differences between the commercial world of the year preceding the war and the situation after the armistice. Following the order adopted in the official statistics for 1920, we may observe first of all, as regards *imports*, a large increase in spirits, oils and liquors, due to the increase in purchases of liquid fuel, of which larger quantities are consumed in industry and by motors. Colonial produce shows a rise of 58 %, — the result, chiefly, of large purchases of raw and manufactured tobacco, due to the increase in internal consumption. As regards chemical products there is — in spite of the progress made by home industry — an increase of 15 %, spread over a large number of articles. In the group of hemp, flax and jute, purchases decreased by nearly a quarter, largely on account of the diminution in the quantity of raw materials entering the country. In the case of cotton, the importation of which underwent violent fluctuations during this period, there is a fall of 11 %, due, chiefly, to the diminution in the supplies of raw material; the purchases of finished articles of cotton were in fact larger in 1920 than in the year immediately preceding the war. In the case of wool and woollen articles, the quantitative index number shows an increase of 28 %, largely due to the heavy purchases of raw materials occasioned by the development of the wool industry in Italy. This increase is also due in part to considerable purchases of certain manufactured products, required for the needs of the civil population, for which the demand had greatly diminished during the war. As regards silk articles, Italian imports in 1920 only amounted to one half of the 1913 total; the reduction specially affects purchases of cocoons in Eastern Europe and in Western Asia, and purchases of raw silk in the Far East.

The amount of timber imported fell to two-fifths of the volume in 1913, chiefly as a result of the deficit in the import from Austria. As regards paper, there is a reduction of 30 %, which affects the supplies of wood-pulp in particular. Leather shows an increase of 26 %, the development of the tanning and footwear industries having resulted in more extensive purchases of raw hides.

There were various fluctuations in the mineral and metal trade during the war, and the volume of imports in 1920 only amounted to four-fifths of that registered just before the war, the diminution being mainly in the purchases of scrap iron, cast iron and secondary metals. The category of vehicles shows a volume three times as great as that reached in 1913, chiefly in consequence of very large purchases of railway stock and vessels. As regards minerals (stone, earth, etc.), the trade amounted to less than half the 1913 figure, mainly on account of the heavy diminution in purchases of coal abroad. Increased imports are shown in rubber, as a result of large purchases of raw materials, due to the expansion of industries of this class. Cereals and vegetable foodstuffs show an increase of 16 %, due largely to the increased supplies of grain and flour. There was only a slight change in the trade in animal foodstuffs; arrivals of large animals were much smaller, but on the other hand there was a large increase in imports of fresh and preserved meat. Cheese imports diminished noticeably.

As regards *exports*, a comparison of trade movements in 1920 with those in 1913 leads to very varied results. As regards beverages, the reduction of one-fifth is largely the result of decreased consignments of wine and oil abroad. Under the heading "colonial products" a diminution of 40 % is shown, due mainly to the reduction in the export of manufactured tobacco in consequence of the larger home consumption. A considerable recovery may be observed in the case of many chemical products, especially acid derivatives. The trade in secondary vegetable textiles increased by about one quarter. This increase is attributable mainly to exports of raw



materials, since many manufactured products show a decrease. An increase of 10 % may be seen in cotton articles as a whole — a sign of renewed activity in manufacture and business in the Italian cotton industry. Linen goods show a slight increase, while woven fabrics have decreased. In the silk group there was a serious diminution (28 %), resulting from the decrease in the import of raw, dyed and waste silk; on the other hand, the exports of manufactured silk articles rose in proportion to the increased productive power of the Italian silk-weaving industry. There is no change in the category of hides; the great development in the leather industries is counter-balanced by a large decrease in the export of raw hides and a heavy increase in the export of prepared skins, gloves and footwear. The mineral and metals group shows a decrease in volume of about one-fifth, in respect of a very large variety of raw materials and finished products. The export of vehicles developed to an extraordinary extent, and reached eight times the pre-war total. Motor-cars in particular found good markets abroad. In the group of minerals (stone, earth, etc.), there was a diminution of one quarter, chiefly affecting the export of sulphur and marble. Rubber shows a slight increase, corresponding to the increase in imports. Decreases of one-third and three-quarters may be observed in the export of vegetable and animal foodstuffs respectively, on account of the inadequacy of agricultural production to the wants of the population and of the maintenance of restrictions designed to lessen the difficulties of the food-supply.

To sum up, a comparison between trade in 1920 and in 1913 shows that the food situation became worse, with the result that there was a decrease in the export and an increase in the import of foodstuffs; that there was a diminution in the production and export of a considerable number of silk articles; that the wool, flax, cotton, footwear, rubber and motor-car industries developed in productive power and in volume of business; that there was a noticeable decrease in coal imports, accompanied by an increase in the use of hydraulic power and of liquid fuel; that the two mining industries in which Italy is particularly concerned — sulphur and marble — were losing ground; and that the purchases of metals in foreign countries decreased in consequence of the approaching crisis in the iron and machine industries.

If the differences in the economic and commercial composition of the currents of foreign trade before and after the war are clearly marked, the differences in the geographical orientation of these currents are still more so in the changed economic conditions of the post-war world. In the case of imports, the commercial importance of the United States and the Argentine in providing supplies of foodstuffs and various other goods is at once evident. Nevertheless, this predominant position is partly due to circumstances of a temporary character and is destined to diminish as the consequences of the war become less and less marked. But in view of the extensive and far-reaching changes which have taken place in the course of the last few years in the productive capacity of America, in the economic situation of Italy and in the channels along which international trade flows, it may be assumed that the greater role assumed by the United States in sending supplies to our country is likely to prove a permanent one.

The rise in the importance of the Argentine, since the war, in Italian foreign trade is due to the large purchases of cereals, meat and wool which have been made in that country and the rise is, therefore, essentially temporary. England's share in Italian trade since the war is somewhat smaller than before, chiefly in consequence of the decrease in coal supplies. After the resumption of commercial relations, Germany began operations on a very modest scale, but such a state of affairs is purely transitory, and will certainly change when Germany has regained her economic equilibrium and the legislative hindrances to trade have been abolished; it is, however, improbable that German imports will at once regain their former importance. Arrivals of goods from the Succession States of the Austrian Monarchy have not been very great, but trade with those countries will probably increase quite considerably in the future, in view of the preponderating position enjoyed by Italy in the economic life of those territories.

If we compare the year 1920 with the period immediately preceding the war, we observe in the case of exports a wider distribution of trade; in other words, the percentages of Italian



exports for each of the principal countries are lower than the corresponding figures for the last year before the war; manufactured products and semi-raw materials occupy a more important place among exports than before the war. Although the products of the soil are not yet exported in large quantities, Italian industry has at least rapidly reconquered its former markets, and is engaged in improving its position in many other countries. A comparatively large increase in Italian exports has taken place in the Danubian, Balkan and Levant countries, thanks to the position which Italy has been able to establish in those countries since the war.

*Analysis of foreign trade in 1920 and 1921.*

The economic crisis which was particularly severe in Italy during 1921 caused a considerable decrease in her trade with foreign countries. This decrease stands out still more clearly if the value, instead of the volume, of trade is taken into consideration; commodity prices having fallen sharply on the international market, the diminution in value will be even greater than the diminution in volume of trade. In the case of Italy, an examination of the movement of trade in 1921 is rendered difficult by the fact that in July, at the time of the introduction of the new customs tariff, new statistical methods were introduced. A new system of classifying goods was adopted, which is far more complicated than that previously in force; it was decided that the goods should be entered at their net weight excluding package, and the principle of a provisional estimate on the basis of the prices of the previous year was abandoned. The trade statistics published for the first half year cannot, therefore, be compared with those for the second; the wide difference between the two systems of classifying goods renders it impossible to elaborate a general review of trade for the whole year. It is a very serious disadvantage in a period which is so important in the economic history of our country.

For the first six months the figures expressing the value of goods are based on prices adopted for 1920 by an administrative commission, which fixes the values to be adopted in respect of the whole of the trade. But the prices for the new statistics (for the second half year) are actual, derived from information given by the importers and exporters, and are based upon the invoices produced by them; they, therefore, give a more approximate idea of the current state of trade and the latest conditions of the market.

As regards the first six months, the statistics so far obtained are only provisional, and are based upon the high prices ruling in 1920. A summary will be found in the following figures, re-calculated by the Confederazione Generale dell' Industria (it should be observed that the total given for exports in 1920 is slightly lower than the official figure).

The goods have been classified according to the economic groups to which they belong.

Lire (ooo,ooo's omitted).

	Imports			Exports		
	First half 1920	First half 1921	% Difference	First half 1920	First half 1921	% Difference
Raw materials . . . . .	5,198.2	4,562.—	— 12.3	853.8	531.6	— 37.8
Semi-manufactured articles. .	2,455.7	1,621.5	— 34.—	2,052.8	1,877.5	— 8.4
Finished products . . . . .	2,706.2	1,894.3	— 30.—	2,181.5	2,193.5	+ .6
Foodstuffs . . . . .	3,636.3	5,376.6	+ 47.8	888.6	679.1	— 25.6
Total . . . . .	13,996.4	13,454.5	— 3.9	5,976.7	5,281.7	— 11.4

These figures give evidence of an enormous total of imports for the first six months of 1921, scarcely lower than the total for the corresponding six months of the preceding year. Imports for the first six months of 1921 exceeded exports by 8,173,000,000 lire — an adverse balance slightly

less than that recorded in the first six months of 1920. Conclusions drawn from this enormous deficit would, however, be erroneous as these calculations have been made without taking into account the fall in prices. An approximate estimate by the Customs Statistical Department, taking as a basis the prices indicated by importers and exporters between July and September, has resulted in the following figures, which are more modest and also much more approximate.

	Lire (ooo,ooo's omitted).		
	First half 1920	First half 1921	Difference
Imports . . . . .	13,966	8,255	— 5,741
Exports . . . . .	5,985	3,882	— 2,103
Excess of Imports. . .	8,011	4,373	— 3,638

These figures show a considerable improvement in the balance of trade; the excess of imports over exports, which reached 8 milliard in the first six months of 1920, fell to 4 ½ milliard. The improvement became even more marked in the second half of the year, as will be seen from the following figures, which refer to the period from July to November:

	(Lire ooo,ooo's omitted).					
	Imports			Exports		
	1921	1920	Difference	1921	1920	Difference
July. . . . .	556.3	1,796.—	—1,239.6	441.5	769.1	— 327.6
August. . . . .	980.7	2,156.5	—1,175.9	586.6	784.5	— 197.9
September . . . . .	961.6	2,074.3	—1,112.7	658.7	840.8	— 182.1
October . . . . .	1,101.4	1,943.5	— 842.1	682.7	1,043.1	— 360.3
November . . . . .	1,146.—	2,140.7	— 994.7	782.1	1,077.6	— 295.5
Total . .	4,746.—	10,111.—	—5,365.—	3,151.7	4,515.1	—1,363.4

The decrease in imports as compared with the preceding year is far greater than the decrease in exports, and the deficit for these five months is only 1,600 million as against approximately 5,600 million in the corresponding five months of the previous year. For the first eleven months of 1920 the difference amounts approximately to 6 milliard, and is considerably under 7 milliard for the whole year — a very modest total in comparison with the 15 milliard deficit in exports as compared with imports for the whole year 1920.

The changes in the distribution of trade shown in these figures are due partly, and perhaps chiefly, to the different degrees to which the prices of various commodities had fallen; in recent months, also, they are due in part to the new Italian tariff which has restricted imports owing to the higher duties imposed; and partly also to the alterations which have taken place in the general economic situation and in the special situation of the country.

As, unfortunately, no statistics are available which would afford a general view of the movement of commerce for 1921 and of the principal currents of trade, special interest attaches to the following figures, which show, in the case of about 20 different commodities of primary economic importance, the quantities imported for the whole year 1921 and, for the sake of comparison, the quantities of the same commodities imported in 1920 and in 1913.

	1921	1920	1913
Ripe Corn. . . . . tons	533,991	182,143	787,631
Green Corn. . . . . "	2,265,781	1,936,227	1,023,102
Maize. . . . . "	456,325	319,847	351,740
Fresh, frozen and congealed			
Meat . . . . . quintals	271,992	326,158	91,170
Coffee. . . . . "	477,775	301,549	286,593
Sugar. . . . . "	965,472	113,744	62,348
Coal (including consignments			
on account of reparations) . . tons	7,461,484	5,619,978	10,834,008
Petrol. . . . . quintals	974,347	1,215,349	1,153,744
Nitrate of Soda. . . . . "	178,895	492,048	674,176
Mineral Phosphates. . . . . tons	567,543	400,001	529,776
Rough and Sawn Timber . . . . "	84,727	40,380	189,497
Unprepared Rubber . . . . . quintals	44,154	68,039	28,443
Scrap Iron. . . . . "	654,777	1,428,570	3,262,307
Pig Iron . . . . . "	656,916	1,571,929	2,216,884
Raw Iron in blocks and Steel			
in ingots. . . . . "	17,969	224,876	72,876
Copper in blocks and Copper			
shavings. . . . . "	209,887	183,545	302,802
Cotton Bales. . . . . "	1,578,896	1,789,417	2,018,808
Raw Jute . . . . . "	267,863	276,774	419,774
Greasy Wool . . . . . "	166,973	262,085	115,496
Scoured Wool . . . . . "	33,431	32,266	53,588

These figures show that the reduction of the total value of imports from 26,853,000,000 lire in 1920 to about 14,900,000,000 in 1921 is principally due to the fall in the price of goods, for in many articles trade was larger in 1921 than in 1920. This is the case with regard to foodstuffs, which were imported in large quantities, especially in the first six months, owing to the unfavourable results of the 1920 harvest of certain agricultural products. The Food Commission imported considerable quantities of cereals, not merely in order to meet immediate requirements, but also in order to form large reserves, so that the market might be controlled after the re-establishment of freedom of commerce. In the case of coal, imports show a great increase, chiefly due to the quantities received from Germany on account of reparations (2,184,184 tons); on the other hand, imports of petrol underwent a large reduction. Further there was an appreciable diminution in the import of raw materials required for the iron industry—a sign of the intensification of the industrial crisis. Finally a certain reduction in the imports of raw textiles may be observed, due to the diminished activity of these industries.

As regards certain categories of manufactured goods, imports were considerable during the first months of the year. This was indirectly due to the crisis itself, which led certain large producing countries to endeavour to pour their excess goods on to the Italian market, either by granting credits or by concluding sales on the basis of a fixed rate of exchange much lower than the actual rate.

As regards exports, so far as can be judged from the scanty information at our disposal, there was a noticeable diminution in hemp, in the category of raw materials, and in certain textile articles and sulphur, in the category of semi-raw materials. As regards finished products, we



observe an increase in the export of woollen fabrics and articles, due to the attempts made by Italian industry to dispose of its stocks by dispatching a large quantity of goods to Central and Eastern Europe. On the other hand, the export of some textile products, especially silk fabrics, shows a heavy decrease in the early months of the year; the serious reduction in the export figures of foodstuffs during the first six months referred specially to oranges, lemons, vegetables and other fresh garden produce. The exports of Italian agricultural products was unsatisfactory also during the second half-year, in spite of the agreements concluded with Germany and certain other Central European countries.

The deficit of 7 milliards in the trade balance for 1921 was no longer met, as was the case during the war period, by State loans contracted abroad. The balance of payments was adjusted to a large extent by the tourist traffic, which is greatly improving. On the other hand, the amount of money sent home by Italian emigrants decreased on account of the restrictions imposed on Italian emigration by the United States and of the crisis which resulted in wide-spread unemployment in that country. The Bank of Naples calculates the amount of money sent home at a total of 711  $\frac{1}{2}$  million lire in 1921, as compared with 980  $\frac{3}{4}$  million in 1920.

The progressive reduction of the adverse trade balance coincided with the rise in the rate of exchange, which took place in the second half-year; this fact would seem to disprove the argument that the abnormal condition of the rate of exchange is in the last resort due to an unfavourable trade balance rather than to purely monetary causes.

#### COMMERCIAL POLICY.

##### *The preponderance of protectionist tendencies in international economics at the present time.*

In its resolutions regarding international commerce, the Brussels Conference drew attention to the Supreme Council's declaration of March 8th, 1920, to the effect that "the States which have been created or enlarged as a result of the war should at once re-establish full and friendly co-operation, and arrange for the unrestricted interchange of commodities, in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers."

The advisability of re-establishing commercial activity between the various countries as soon as possible has frequently been emphasised in other statements and recommendations made in the last few years dealing with the restoration of the countries which have suffered by the war. Unfortunately the commercial policy adopted by the majority of the Governments towards the end of the war and after the Armistice was not inspired with these reasonable principles. There was, indeed a recrudescence of protectionist tendencies, an increased severity in restrictions and prohibitions and a feverish anxiety to close the home market against all tenders of foreign goods. This prohibitive policy showed a marked increase when, owing to the war, industry had developed considerably and the disproportion between production and consumption was forcing the leaders of the economic groups concerned to redouble their efforts to ensure the control of home markets for themselves. The lack of proportion between the capacity of production and the capacity of consumption which is ensuing from the economic crisis will perhaps do much to turn commercial policy into other channels.

The line of action taken by Italy during the period that we are considering corresponds in part with the ruling tendencies, but is also partly inspired by the definite suggestions made by the Brussels Conference.

*New customs tariffs.*

The commercial treaties concluded between Italy and many other countries have lapsed during the last few years. Preliminary investigations with a view to a complete revision of the customs system had already been started before the war. They have since been resumed. The preparation of the new customs regulations gave rise to most violent discussions and clashes between conflicting interests during the first two years of peace, and after various vicissitudes which we need not recall, a new tariff was adopted and put into force in July, 1921. The Royal Commission which had studied the question had proposed the adoption of a double autonomous tariff, with a scale of duties which would form the irreducible minimum of preferential treatment that could be granted by negotiation. For various reasons, the Government passed an emergency act introducing these reforms, but did not think it advisable to carry out so sweeping an innovation, and, therefore, maintained the former system of a general tariff capable of modification by means of commercial treaties. The new tariff is of a much more protectionist character than the previous tariff in force since the year 1887, but this protectionism is not more stringent than that prevailing elsewhere. The tariff is very detailed; the number of articles involved is increased from 1,200 to about 2,500 and the aim of the system of specification, based on a qualitative analysis of the goods, is in general to increase protection. The duties are fixed in gold, and are convertible into paper at a rate of exchange based on fortnightly quotations. The rates are for the most part those proposed as a minimum by the above-mentioned Royal Commission, but they have been increased by means of co-efficients that were originally determined according to the current level of prices, and that can be modified later by the executive authority in accordance with the variations in the comparative cost of production.

*Trade conventions concluded since the war.*

The tariff adopted allows negotiations to be conducted and new customs agreements to be concluded with allied and neutral countries when the existing treaties with these countries have either lapsed or, having been denounced, remain in force only as a provisional measure. Such negotiations are obviously fraught with difficulty in view of the prevailing uncertainty with regard to the international economic situation. A painful impression was created when, at the end of October, 1921, France denounced the Franco-Italian Agreement of 1898-1907, to take effect as from February 1st, 1922. Under the terms of this Agreement, Italy conceded most-favoured-nation treatment and reduced duties on various articles in the case of goods coming from France and the French Colonies (with the exception of silk and silk fabrics). France, on her side, applied the minimum tariff to Italian goods (likewise with the exception of silk and silk fabrics). The main reasons which induced France to denounce this Agreement were that Italy had previously denounced almost all her commercial treaties, and that France, therefore, ceased to benefit by the reductions obtained from the most-favoured-nation clause, also that the new Italian customs tariff was higher than the old, not only in actual fact, but also on account of the stipulation regarding payment in gold. It should, however, be observed that, even after the new tariff came into force, Italy maintained integrally, in the case of French goods, the customs reductions stipulated in the agreement of 1898, whereas France had increased her minimum tariff on several occasions — the last of them of quite recent date — by applying higher co-efficients to certain of her important products. The denunciation by the French Government was to take effect on February 1st, 1922, the *status quo* was, however, prolonged until the conclusion of a provisional Agreement, which should hold good until the conditions of trade between the two countries were definitely settled by a regular commercial treaty. Negotiations for drawing up the provisional Agreement are at present in progress, and have almost been concluded, despite the difficulties resulting from the different customs systems of the two countries. The principle of the Agreement would appear to be that France will apply her minimum tariff for Italian goods and that Italy will grant reductions



in the duty on articles of special importance for France. The French Government will also undertake not to alter, during the period of the Agreement, the minimum tariff on certain goods which Italy is particularly desirous of exporting to France. — After lengthy negotiations Spain has finally given up applying to Italian products co-efficients of increase based on the depreciation of the Italian rate of exchange and has allowed Italian goods to be taxed according to the minimum customs tariff (column 2 of the tariff) in exchange for the concession by Italy of the most-favoured-nation clause. — Negotiations are in progress with Canada with a view to avoiding the application of these coefficients. — The commercial treaty of 1900 with Roumania having been denounced as from May 6th, 1921, a provisional Agreement has been concluded, by which the contracting parties reciprocally grant each most favoured nation treatment. This provision is, of course, much less important now than before the war, in view of the small number of conventions at present in force.

With regard to the ex-enemy countries and the new States, the commercial policy adopted by Italy during the years now under review has been directed chiefly towards the establishment of certain exceptions to the existing import and export prohibitions; it would still be premature to enter into negotiations with these countries for the establishment of a permanent customs system. Thus, while conforming strictly to the international obligations imposed by the Peace Treaties, Italy entered into negotiations with Austria and Hungary, with reference in particular to transport questions; more recently, at the beginning of 1922, she negotiated with Austria with a view to modifying the import and export prohibitions on certain articles. — In August, 1921, she concluded an Agreement with Germany — valid for 9 months, with provision for possible extension — according to which the contracting parties undertake to grant each other facilities for the delivery of import and export licences in the case of a large number of articles of importance for the economic life of the respective countries. This Agreement resulted in the removal of a large number of obstacles which still existed in the way of trade between Italy and Germany. But the effects of the general crisis, and the disastrous consequences for Germany of the fall in the mark have hitherto prevented any resumption of business on a large scale, and, so far as can be judged, the Agreement does not seem to have had much practical effect. — As regards the new States, the commercial treaty concluded at Rome on March 23rd, 1921, with Czechoslovakia, is of special importance; it provides for most-favoured-nation treatment between the two countries, and fixes the quantity of goods which may be exchanged in derogation of the prohibitions. The clause providing for most favoured nation treatment is valid until 1925, and the quantities of goods are fixed for a period of one year; they have been fixed in a very liberal manner, in order to promote the export of Italian agricultural products and of some industrial products from Bohemia. — An agreement with Poland was signed in August, 1921, determining the quantities of goods which might be exchanged. — In Yugoslavia, the coming into force of the new autonomous Yugoslav customs tariff was the occasion for the denouncement by the Belgrade Government of the contractual tariffs established in treaties previously signed with Serbia; the countries signatory to these treaties will henceforward enjoy the advantages of the new minimum tariff; in return, Italy will apply her general tariff to goods of Yugoslav origin, subject only to the privilege of most-favoured-nation treatment. Negotiations with a view to more important concessions were subsequently undertaken, but were unsuccessful owing to political difficulties. — Towards the end of December, 1921, a preliminary commercial Agreement was concluded with Russia. This Agreement established the general legal status upon which the relations between the two countries were to be based, but its importance has so far been political rather than commercial.

#### *Abolition of war restrictions.*

These restricted and incomplete arrangements which only apply to a certain number of States, do not as yet reveal the trend of Italian commercial policy in the new international



economic situation. The more definite and more general negotiations which are now to be undertaken will perhaps succeed in lessening the difficulties which still hamper trade.

The temporary obstacles placed by the war in the path of trade — obstacles which arose directly out of the war and which certain countries have maintained for the purpose of protection — were gradually abolished by Italy between 1919 and 1921. Certain import restrictions, maintained or recently introduced in order to "protect the rate of exchange", have not fulfilled their purpose or exercised any perceptible influence on the movement of trade: the "armour of war" in which trade was harnessed has been definitely and completely laid aside.

(Signed) RICCARDO BACHI.

*April 30th, 1922.*

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POSITION OF THE ITALIAN MERCANTILE MARINE  
(VESSELS OF OVER 250 TONS' BURDEN) AT THE BEGINNING OF 1920.

[illegible]

POSITION OF THE ITALIAN MERCANTILE MARINE (VESSELS OF OVER 250 TONS' BURDEN) AT THE BEGINNING OF 1921.

[illegible]



ANNEX III.  
POSITION OF THE ITALIAN MERCANTILE MARINE (VESSELS OF OVER 250 TONS' BURDEN) AT THE BEGINNING OF 1922.

PURPOSES TO WHICH ASSIGNED	ITALIAN VESSELS				VESSELS UNDER SEQUESTRATION				TOTAL			
	a		b		a		b		a		b	
	In service or undergoing slight repairs	Net Tonnage	Not in service	Net Tonnage	In service or undergoing slight repairs	Net Tonnage	Not in service	Net Tonnage	In service or undergoing slight repairs	Net Tonnage	In service or undergoing slight repairs	Net Tonnage
<i>Vessels under direct Government control:</i>												
State Railways - Service of Supplies . . . . .	28	198,379	—	—	3	21,366	—	—	31	219,745	—	—
Marine Department (Ship-building control) . . . . .	4	21,900	1	6,700	3	11,060	—	—	7	32,960	1	6,700
Supplies Commission . . . . .	21	134,690	—	—	—	—	6	45,990	21	134,690	6	45,990
War Office (Military transports) . . . . .	3	6,400	1	1,000	1	3,000	—	—	4	9,400	1	1,000
Admiralty (Military services) . . . . .	—	—	—	—	3	4,660	—	—	3	4,660	—	—
Treasury . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
Total . . . . .	56	361,369	2	7,700	10	40,086	6	45,990	66	401,455	8	53,690
<i>Other Vessels:</i>												
a) Subsidized mail services . . . . .	66	136,865	—	—	1	3,500	—	—	67	140,365	—	—
b) Passenger services . . . . .	30	103,078	3	21,650	—	—	3	25,728	30	103,078	6	47,378
c) Goods . . . . .	50	325,380	18	113,668	4	21,150	1	7,450	54	346,530	19	121,118
d) Various . . . . .	323	1,481,046	113	486,945	4	16,350	2	7,930	227	1,497,396	115	494,884
Total . . . . .	469	2,106,369	134	622,272	9	41,000	6	41,108	478	2,147,369	140	663,380
Grand Total. . . . .	525	2,467,738	136	629,972	19	81,086	12	87,098	44	2,548,824	148	717,070
			661 = 3,097,710				31 = 168,184					692 = 3,265,894

ANNEX IV.  
STATE RAILWAYS.

	1913-14	1919-20	1920-21
Actual length of standard gauge system (at the end of the working year) . . . . . kilometres	13,684	15,611	15,627
Total mileage covered by trains on the standard gauge system (in train kilometres)	118,686,971	96,403,691	101,411,799
Goods carried . . . . . weight in tons	41,421,872	39,727,332	38,806,714
Number of waggons . . . . .	5,026,295	3,788,135	3,871,790
Wagon kilometrage . . . . . (in thousands of tare-tons)	7,069,885	9,795,568	8,986,470
<i>Rolling Stock</i> (standard gauge) (at the end of the working year)			
Locomotives . . . . . Number	5,153	6,184	6,201
Rail motors . . . . . »		83	80
Electric locomotives . . . . . »	152	213	239
Electric rail motors . . . . . »		51	51
Bogey carriages . . . . . »	10,078	10,941	3,734
2 or 3-axle carriages . . . . . »			7,274
Mail and luggage vans . . . . . »	364,101	4,480	4,669
Goods waggons . . . . . »	103,072	145,090	158,221

RECEIPTS FOR PASSENGER AND GOODS TRAFFIC OVER THE RAILWAY SYSTEM  
(INCLUDING THE SICILIAN SECONDARY RAILWAYS AND THE STRAITS OF MESSINA SERVICE, BUT EXCLUDING STEAMER SERVICES)

DURING THE WORKING YEARS:

lire (ooo's omitted)

	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20	1920-21
Passengers . . . . .	230,397	199,634	253,288	324,123	404,340	653,295	736,801	1,006,459
Luggage and dogs . . . . .	10,507	7,090	5,807	6,406	8,267	14,066	30,571	49,076
Express goods service . . . . .	61,443	78,531	158,957	319,928	400,279	376,280	197,962	220,173
Accelerated goods service . . . . .	275,484	289,043	343,034	430,040	444,284	549,448	62,071	104,638
Ordinary goods service . . . . .							780,102	1,315,053
Total . . . . .	577,831	574,298	761,146	1,080,497	1,257,170	1,593,089	1,807,506	2,695,400





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