

CONFIDENTIAL

ITALY'S POST-WAR ECONOMIC RELATIONS.

Some preliminary notes.

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SUMMARY AND CONCLUSIONS.

The long-term prospects of Italy as a factor in international trade relations are examined and discussed.

The American economic interests at stake in Italy are very small. However, political and security factors also have to be considered. In the past, the lack of balance between hopes and aspirations, on the one hand, and resources and opportunities on the other, have produced an explosive combination, of which fascism was the result. The recurrence of that pattern can only be prevented if Italy is in a position to gain some degree of economic security and to raise its standards of living.

The damages wrought by the war, and the imposition of comparatively mild or harsh economic peace terms, while important, are not likely to affect decisively the long-term prospects of the country, as far as international trade relations are concerned.

According to one school of thought, Italy is hopeless as an economic proposition. According to another, Italy could easily pay its way and even prosper, given a large degree of international freedom of trade.

The population pressure, though serious, is over the long pull less severe than it is commonly thought. The birth rate is falling, and Italy's population should become stabilized at 49,500,000 around 1970.

Italy's economic development was notable between 1861 and 1914, and particularly striking between 1900 and 1914, when the value of the national income rose from 9 to 18 billion lire.

Italy's basic economic weaknesses, owing to lack of raw materials and to the fact that most of its exports belong to highly competitive lines, are also to be considered. Small fluctuations in international demand affect considerably the position of the country. This great dependence on international conditions was emphasized by the effects of the Great Depression and by Italy's difficulties during the inter-war period.

Fascist economic policies, up to 1935, did not make much difference as far as underlying trends were concerned. In that year they became irrevocably tied to a pattern of foreign and military adventure which could only lead, as it did, to disaster.

The basic fact governing Italy's past and future economic role is the close relationship between international and domestic conditions and trends. Italy prospered when the value of foreign trade per head increased, declined when it diminished. The same is likely to happen in the future.

Italy's foreign trade is of very sizable proportions: it reached almost 2 billion dollars in 1929, and averaged slightly above 1 billion in the decade 1929-38.

A "functional" classification of Italian imports shows that, in 1938, some 14 per cent of the total was constituted by essential foodstuffs, 24 per cent by fuels and other imports essentials for the maintenance of utilities and industrial operations, 41 per cent by raw materials processed into domestic articles of consumption (both consumers' and producers' goods), 10 per cent by materials processed into export articles, 11 per cent by non-essential consumption imports. The import content of exports (in terms of the value of industrial output) was approximately 11.6 per cent.

By and large, Italy's procurement problem presents very serious but not unsurmountable difficulties.

Foodstuffs (raw and processed) constituted about one-third of the pre-war export trade, and textiles (natural and synthetic) another third. Italy's export trade pattern is on the whole weak. Given an unfavorable international situation, domestic adjustments in the price-cost structure cannot remedy the situation. The income level of foreign buyers is the ultimate factor which governs the value of Italy's export trade.

Political and other factors brought about a reorientation of Italian trade toward Germany, and away from Britain and other western European countries, after the Great Depression. Normally, however, Italy's foreign trade is fairly evenly distributed among the principal relevant trading areas: the United States, the pound area, France and Western Europe, and Germany. In the inter-war period, the oversea markets became increasingly important for the export trade. There was also increased trade with the Balkans.

Italy therefore has much to gain from a multilateral system, especially if its restoration is associated with the vigorous development of new markets in comparatively poor areas, with the help of the great financial powers. Any other alternative would involve serious disadvantages. Autarky is out of the question, and bilateralism holds out very little hopes for Italy.

The only practical alternative to multilateralism would be regionalism, involving closer relations with either Russia or the British Empire. The first course would be tantamount to Italy's absorption into the Soviet Union. A straight partnership with Britain might be advantageous, but seems hardly practicable. However, there would remain the possibility of closer ties with France, Spain, and a Western-European bloc linked to the pound area--if there is going to be one.

American developments will, however, influence in any case--except if Italy enters the Soviet orbit--Italian developments, and the Italian balance of payments, given the American contribution to most invisible items (tourist trade, shipping passenger traffic, etc.).

Italy had no difficulty to balance its foreign payments, both on current and capital account, between 1900 and 1914. In the inter-war period, however, the difficulties were very serious. Future prospects are uncertain, and ultimately hinge on the question whether after the war there will be a moderately but steadily expanding world economy, or a return to the inter-war pattern. In the latter case, the deterioration in real income inherent to an adjustment in Italy's international accounts at a low level of exports and imports might be almost intolerable; and lead the country to desperate steps, including the sacrifice of its independence.

ITALY'S POST-WAR ECONOMIC RELATIONS.^{1/}
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I.

THE PROBLEM.

Introductory Remarks-

The present memorandum is purely preliminary and exploratory. Its purpose is to set out a number of facts and relationships relating to the long-term prospects of Italy as a factor in international economic relations.

Though this memorandum deals with long-term factors, and abstracts from the problems of the present emergency state of affairs in Italy, as well as from those connected with the peace settlement, its bearing on present day policies and problems is plain. Obviously, many decisions taken under the stress of war conditions will have a lasting effect on the long-term configuration of the area. They will influence the nature of Italy's post-war economic relations, their pattern, and the very survival of Italy as an independent economic and political unit in the decades to come. To the extent to which the United States has an interest in the area, and in the economic and security problems connected with the Mediterranean, south-western Europe, and the Near East, they are also a matter of American concern.

The Alternatives-

Will Italy after the war be in a position to revert to the situation of 1900-1913, to enjoy the benefits and an expanding international and domestic economy, and regain its status as a member of the peace-loving family of nations? Or will it be caught again in the vicious circle of depression and frustration which had so much to do with the rise and consolidation of fascism, and become once more a trouble spot of the European and world map? Or will Italy, as a result of the impoverishment and destruction suffered in the present war and under the strain of the highly competitive conditions of the post-war economy, find it impossible to achieve economic stability--and join a British-controlled Western European bloc or perhaps the Soviet Union?

^{1/} The writer is indebted to Professors Howard S. Ellis and Gottfried Haberler who read the manuscript and contributed valuable suggestions.

To decide which of these alternatives would be favorable, and which prejudicial to American interests is a matter of high policy--though, at least with reference to some of these alternatives the answer seems obvious. However, policy decisions involve not only matters of principle but also of degree--and are governed to a considerable extent by the underlying facts. It may therefore be desirable to make clear as much as possible under what assumptions the indicated alternatives would be likely to occur--and consequently the conditions which may favor or hinder any desired policy. This is the objective of the present memorandum.

American Economic Interests in Italy-

The American economic interests at stake in Italy are very small.^{1/} In 1939, Italian purchases constituted only 1.9 per cent of total American exports, and Italian supplies only 1.7 per cent of total American imports. We sell to Italy chiefly raw and semi-processed materials (oil, cotton, iron and steel scraps), and buy from Italy raw silk and a variety of processed foodstuffs of secondary importance. Outstanding dollar loans which have not been re-purchased by Italians are probably in the order of only \$100-150 million.^{2/} Direct American investment in Italy is confined chiefly to a participation in certain electric power and other utility companies, and in some oil refineries. The flow of emigrants' remittances from this country to Italy has dwindled to a very small trickle (not more than \$8-10 million in the immediate pre-war years). Thus, economic interests alone would hardly justify a large and sustained measure of American pre-occupation over Italian affairs.

Political and Security Factors-

Political and security factors, however, play a considerable role in the picture. Italy constitutes a lump of 45 million people, placed at a strategic point of the world map. Though in the present war its contribution to the enemy war effort has been almost negligible, Italian intervention cut for almost three years the Allied communications through the Mediterranean, and gave to the Germans an invaluable springboard for action. After the war, Italy will probably find itself on the borderline between the Russian and the Western areas.

1/ For a detailed study of U.S.-Italian trade relations cf. the excellent Report No. 142, Second Series, issued by the U.S. Tariff Commission - Italian Commercial Policy and Foreign Trade 1922-1940.

2/ Italy contracted substantial long-term loans in the United States between 1925 and 1928, for a total slightly in excess of \$300 million. Of these, \$100 million were borrowed by the Italian government (Morgan loan), \$60 million by the cities of Rome and Milan, the rest by various industries, chiefly the electric power (some \$80 million) and the shipbuilding (some \$22 million) industries. A large fraction of these issues however was purchased by Italian investors out of their dollar resources, and eventually surrendered to the Italian government--and exchanged into Italian Treasury Bonds--in 1935.

Moreover, it is plain that Italy has been, wittingly or unwittingly, a considerable factor of international disturbance for a generation or so. The Italian-Turkish war of 1911-12 played a part in accelerating the crisis that resulted in the First World War. In the inter-war period, the rise of fascism was a major factor which influenced the growth of national-socialism. It should not be forgotten that Hitler played for many years the part of Mussolini's admiring disciple, and that his movement received considerable help--at the period of its lowest ebb, after 1923--from the Italian fascist government. Mussolini's record of unbridled aggression, from the Corfu incident of 1923 to the Abyssinian war, the intervention in Spain and later adventures, is familiar to everyone. And though experience has shown that fascism did not succeed in taking firm roots among the Italian people, the basic factors which produced Mussolini will outlive him. For the lack of balance between population and resources, and between hopes and aspirations on the one hand and opportunities on the other, have produced an explosive combination, of which fascism was both a symptom and an effect. And while alone Italy is incapable of setting the whole world aflame, it can generate or propagate world trends of incalculable danger--as exemplified by national socialism.

There seems to be a growing realization on the part of the best democratic Italian elements of the fact that their country is not fitted to play power politics--and that Italy should chart its future along the route successfully followed in the past by Sweden and other countries, concentrating exclusively on the achievement of a balanced economy and of a satisfactory social structure, and keeping aloof from the world game of politics. Plainly, this is the course that would be more consistent with American interests, and with the American ideas of a peaceful post-war world, in which the smaller nations would be able to preserve their independence, would not be pawns in the game of third powers, and would not become sources of international disturbances.

Economic Security and Political Stability-

If, however, the past affords any guidance with regard to the future, it is obvious that such a development would be predicated upon Italy's ability to achieve a balanced economic structure, involving a reasonable degree of security, and to raise gradually but perceptibly its standard of living. Therefore it becomes important to ascertain under what assumptions Italy could economically stand on its own feet, or whether the possibility itself is to be dismissed as an idle dream.

II.

ITALY'S PROSPECTS: A PRELIMINARY VIEW

War Damage and Peace Terms-

No one is, of course, in a position to measure the full extent of the damage and destruction wrought on Italy by the present war. Yet, while the damage is plainly going to be of catastrophic proportions, and may even involve the destruction of most of the industrial assets and equipments built in the course of the last two generations, it does not alter basically the terms of the problem--though naturally it increases their proportions. Actually, everything will hinge on the long-term prospects and economic potentialities of the country. For if these are fair, there will be every justification for investment--under one form or the other--of new capital in the area, and for a bid to foreign assistance, public and private. Should on the other hand long-range prospects be extremely bleak, the position would be well-nigh impossible, even in the event that industrial and other damage should not prove to be as heavy as expected.

Nor would the picture be substantially altered--except in the all important psychological and political respect--by the imposition on Italy of comparatively mild or harsh peace terms. For it is assumed that, from an economic viewpoint, the difference is not likely to be very great either way. Given its "deficit" economy, and the present catastrophic standards of living, it is not at all clear how Italy could be subjected to substantial reparation payments--with the exception perhaps of some deliveries in kind and the export of manpower. On the other hand, favorable peace terms, involving for instance the retention of some or all its "pre-fascist" colonies, would be of little economic benefit--no matter how much this would appeal to Italian self-respect.

In one respect only will the peace settlement affect vitally the economic future of Italy, and this is whether it will keep Italy permanently beyond the pale of the Western family of nations, or will in due course admit it back in the fold. This is, of course, the key to everything else--and on which everything else hinges.

The Pessimistic View-

There is a pessimistic school of thought which considers Italy hopeless as an economic proposition.^{1/} Italy's basic weakness in terms of raw materials and other fundamental resources--the growing pressure of population--the dwindling importance of certain traditional items of its balance of payments, such as emigrants' remittances--the tremendous damages suffered or about to be suffered in the course of the present war; these are all factors which, according to many, seem to rule out the possibility of a working equilibrium within the present context.

This view, while plausible in many respects, may lead--if accepted without reservations--to two opposite conclusions which are plainly counsels of despair. The first is the one which became widespread in Italy after the 1919 peace settlement, and which was fully exploited by the fascists for their own ends: to the effect of which Italy is a congested and "have not" country, which must be allowed a considerable degree of territorial and colonial expansion. At the present stage of the game, and after the defeat suffered in the war, no person in his senses can expect that such claims would find a receptive audience. This to say nothing of the fallacies and delusions which they involve.^{2/} The second conclusion is that Italy cannot possibly pay its way--and preserve a tolerable standard of living--in a highly competitive world, and has to be subjected to the permanent assistance and guardianship of foreign powers.

1/ This statement can be said to reflect the typical viewpoint of the English and American press, weeklies and economic magazines. The average Italian is, of course, keenly aware of the heavy handicaps under which Italy has been placed by its lack of raw materials and other circumstances, and feels entitled to serious grievances toward the rich "have" countries, especially on account of their tariff and immigration barriers. Fascist politicians harped consistently on the "selfishness" of the "have" Powers and the need for outlets to relieve the population pressure. Reputable economists seldom identified themselves with extreme conclusions, but they naturally felt bound to stress the basic economic limitations of the country, and the fact that these could only be mitigated in an enlightened international society in which the movement of goods, services, and persons could proceed untrammelled. Professor Mortara was among the economists who emphasized more vigorously the Italian difficulties with raw materials and foreign markets.

2/ While it can be expected that many Italians will revise radically their fascist-fostered delusions as to colonialism and African "imperialism", they will however inevitably continue to draw envious comparisons with the lot of other more fortunate countries. Incidentally, the possibility of having a share in the economic advantages (true or imagined) of colonial trade (in a wide sense) would certainly be a very powerful inducement toward joining a wider regional or other bloc.

An Optimistic View-

The optimistic school of thought,^{1/} on the other hand, points to the great strides made by Italy's economy during the first fifty or sixty years of unity, and without any appreciable recourse to foreign lending--let alone assistance. It contends that the population pressure, though heavy, is bound to diminish, because of the fall in the birth-rate. Also, that while Italy is comparatively unfit for heavy industrialization and mass production, it can rely to a considerable extent on its traditional manufacturing and processing industries. There should be no difficulties, according to this view, in procuring essential raw and other materials, so long as a large degree of international freedom of trade prevails. All in all, it is concluded that population, raw materials, and market problems are to a large extent "bogeys" and myths--and that there is no reason why Italy should not resume its progress in an orderly and free world.

The "Optimistic" Case-

In order to assess the conflicting claims of those two schools of thought, let us look briefly and dispassionately into the facts.

The population pressure is serious but, over the long run, not so serious as some think. The birth rate fell from 36.8 in the 1000 in 1861 to 23 in the 1000 in 1936-38. The great population increase, from the 25,000,000 people of 1861 to the 45,000,000 of the present day, was due chiefly to the great fall in the death-rate. The average net population increase over the next twenty-five years should not exceed a quarter of million per year, and population should become stabilized in or around 1970 at 49,500,000.^{2/}

^{1/} Its most distinguished advocate can be considered Professor Luigi Einaudi. Dr. Mario Einaudi has ably presented it in his article The Reconstruction of Italy, Foreign Affairs, January 1944. That viewpoint probably involves an underestimation of the difficulties which Italy is bound to face in the postwar world, but it constitutes a healthy reaction against the exaggerations of fascist writers, and their disparagement of the great--if quiet and undramatic--achievements of Italy's economy from 1860 to 1922. In an extremely courageous paper printed in Italy in 1942, (Il problema industriale italiano, " giornale degli Economisti") Professor Giovanni Demaria contrasted very sharply the progress made by Italy under conditions of economic freedom to the stagnation due to the fascist policies of "self-sufficiency".

^{2/} cf. Frank W. Notestein and others - The Future Population of Europe and the Soviet Union - League of Nations, 1944, p. 290. Mr. Colin Clark, in his The Economics of 1960, pp. 16-17 had arrived at the same conclusion. These recent population projections, based on the latest trends, are to be considered more reliable than the earlier ones computed by C. Gini (Bulletin de l'Institute International de Statistique, 1931), which appear to have underestimated the expected declines in fertility. Some data on Italian population, emigration, etc., have been reproduced under APPENDIX A).

Of course, the very fact of a density of population of 138 per square kilometer (as compared with 76 in France) poses a very serious problem: and the impact of the Johnson Immigration Act, as a result of which Italian emigration to the United States abruptly declined from over a quarter of a million to a mere few thousands per year; was bound to be terrific. It is clear that it played a big part in aggravating Italy's difficulties in the inter-war period. But by now the shock has been absorbed; and while additional and wider emigration outlets after the war would certainly be welcome to Italy, a return to the pre-1913 is not only unthinkable--in view of the prevailing attitude toward immigration in the "new" countries--but not strictly necessary. Of course, large scale emigration would permit an increase in standards of living. But it cannot be said that the pressure of additional population is too formidable, and is bound to lead to explosions unless it is relieved. In other words, from now on the emigration problem has a bearing chiefly on the chances of improvement over existing conditions rather than on the prevention of further deterioration. It is not denied that, in the immediate post-war problem, unemployment could reach such formidable proportions as to make imperative another wave of large-scale emigration. But this would be a transitory, if important, development. Over the long run, the facts seem to justify very largely the "optimistic" point of view in that respect.

The "optimistic" school can also score a number of major points in other respects. A birdseye view of Italy's economic development from 1861 to 1914 is sufficient to confront even the most casual observer with a very solid and impressive record of performance, which should dispel many preconceptions as to Italy's ability to stand on its feet, given certain assumptions. Over the whole period, the rate of economic and industrial progress outstripped the rate of increase in population.^{1/} Progress was particularly striking in the period 1900-1914, when the value of the national income doubled (from 9 billion lire in 1901 to 18.2 in 1913).^{2/} Agricultural income per head rose from 640 to 1165; industrial income per head from 780 to 1250; other income from 900 to 1857 lire. There was a considerable shift toward industrialization, involving a corresponding fall from agricultural to total occupied population.^{3/} Both industrial and agricultural wages were raised above their old sub-subsistence levels.^{4/}

^{1/} According to Demaria (op.cit,p, 153), taking into account exports, imports, and domestic economic growth, the rate of growth of Italian industrial economy in the period 1870-1914 approximated 2-2.5 per cent per annum, on the average. This exceeded the rate of population growth which, during the same period, averaged .8 per cent per year.

^{2/} As prices were moderately rising during the period, the net increase was somewhat lower.

^{3/} cf. Colin Clark - Conditions of Economic Progress - p. 201.

^{4/} cf. Luigi Einaudi - La condotta economica e gli effetti sociali della guerra italiana - Carnegie Endowment Series, 1933 - Ch. I.

Industry, banking and investment developed. Foreign investment played a comparatively small part. The country enjoyed between 1900 and 1913 complete monetary stability. The trade deficit of the country increased, but was more than offset by the yield of the "invisible" items. Italy's aggregate balance of payments for the period 1901-1913 ^{1/} indicated that the country had paid in full for its heavy and growing imports, that the balance of payments on current account had been in equilibrium, and that the capital account of the balance had been favorable. The 1,300 million lire of long-term foreign capital imports had been balanced by 773 millions of Italian securities repurchased from abroad, and by 528 millions of net gold imports. The gold, silver, and foreign exchange assets of the three banks of issue increased from 663,3 million lire (1901) to 1.661 million (1913). All those were very substantial achievements; and the more notable in the face of the poverty and backwardness of great sections of the country especially in the first decades of national unity.

The "Pessimistic" Case-

The "pessimistic" case (and we refer here only to that wing of the "pessimist" school which is uninfluenced by propaganda, or by nationalist and other emotional factors) rests chiefly on Italy's poverty in basic raw materials and on the vulnerability of the country's economic structure to international fluctuations. It is pointed out that despite the great modern developments in the electric power industry, Italy is still entirely dependent on abroad for fuels. Italy does not produce--with very few and comparatively unimportant exceptions--rich or strategic materials (though conversely is not exposed to the wide price and income fluctuations of the countries which depend chiefly on basic raw materials or international staple commodities), and almost all its exports belong to highly competitive (and in some cases semi-luxury) lines. Its share of world trade does not exceed 2.5 per cent of the total, and its bargaining power is extremely weak. While a small fluctuation in the international demand is bound to affect considerably the level of Italian exports, even large fluctuations in Italian demand for imports make hardly a ripple on the surface of world trade.

In other words, while Italy exports chiefly non-essential or highly competitive commodities, the demand for which is stable only if international conditions are favorable and the income of the foreign purchasers is expanding, Italy's imports include to a large extent essential materials which have to be purchased at any cost, in order

1/ As calculated by Professor Epicarmo Corbino in Annali d'Economia Vol. V, p. 222.

to maintain reasonable standards of living and employment. ^{1/} As a result, Italy is very vulnerable to international trade depressions.

Above all, the "pessimistic" school of thought stresses the lesson of the inter-war period and of the Great Depression. It points to the fact that though after 1919 the industrialization trend continued, and remarkable industrial and other economic developments took place, especially until 1929, Italy's economy as a whole remained surprisingly stagnant. It is true that between 1922 and 1929 the national income revived substantially from the impoverishment produced by World War I, and that on the eve of the Great Depression real income per head exceeded considerably the pre-war level; But the advance was caught in the vortex of the Great Slump and canceled; and while there was a measure of recovery (to a great extent stimulated by wars and war preparations) since 1936, the country's economy found itself nevertheless distorted and out of balance.

The Impact of Fascism-

The developments of the inter-war period, however, can hardly be considered as "normal", in view of the impact on them of three major factors, namely the consequences of World War I, the Great Depression, and the domestic and foreign economic policies of fascism. As the first two affected all Europe--and the second the whole world--the degree of economic deterioration imputable to them is not necessarily connected with Italy's basic weaknesses, real or imaginary. The third was specifically Italian, and calls for a few words of comment.

It would, of course, be impossible to review in a few paragraphs the economic consequences of fascism for Italy. Surprising as this may seem, however, up to 1935, fascism did not make much difference as far as underlying trends were concerned. In the comparatively prosperous period of 1923-29, many foreign observers were lavish in their praises of the remarkable economic strides made by Italy

1/ In the language of theoretical economics, this would imply that the demand for Italian exports is governed primarily by the "income effect", namely by the effects of fluctuations in foreign buyers' income. Since Italian exports are to a great extent offered in a competitive market, "price elasticities" (namely, changes in demand associated with price changes) play normally a very small role. On the other hand, the Italian demand for imports is, with respect to fuels, essential materials and food-stuffs, pretty inelastic--that is to say, Italy has to import, within certain limit, no matter how high the prices. Therefore, if international trade conditions are unfavorable, Italy is inevitably led to cut drastically the price of its exports, and to resort to various forms of dumping, in order to pay for its essential requirements.

allegedly, in the climate of "stability and order" brought about by fascism. But that revival was a natural development which would have taken place just as much under any other type of government. In fact by 1922 the wave of disorder and unrest of 1919-20 had almost entirely spent its force. That Italy was capable of progressing also under allegedly "weak" democratic governments, had been evidenced by the history of the 1900-1913 period. Conversely, it would be unfair to say that the fascist government, during the crisis years of 1930-34, behaved much differently from most other European governments, though its blunders were very serious especially in the monetary and foreign trade sphere. The turning point came by the end of 1934 or the beginning of 1935, when the fascist economic policies became irrevocably tied to a pattern of foreign and military adventures which could only lead, as they did, to ignominy and disaster.

The catastrophe into which fascism has plunged Italy has inevitably set the economic clock back by one and possibly two generations. The Italians will have to start again more or less from scratch, as they did in 1890-1900. But the basic potentialities and drawbacks of the country are more or less the same as in the past--and these only will condition, together with all other relevant factors, the post-war long-term trend, which is ultimately the only thing that counts.

Preliminary Conclusions-

It is at this point that the dispute between the two schools of thought can be fully appraised and, it is hoped, settled at least in its more general aspects. There cannot be much dispute as to basic facts--though differences of temperament play a certain part in their evaluation. It all boils down to a divergence in the assumptions relating to the world in which Italy has to live. It is an uncontroverted fact that Italy prospered so long as the international situation was favorable, world income and trade expanded, and a large degree of international division of labor prevailed; and that it declined when the reverse conditions obtained. Whether the post-war world will revert to the basic features of pre-1913, as far as international trade is concerned, or will follow the vicious pattern of the inter-war period, is a matter of speculation. A close relationship between international and Italian economic and trade trends has been conclusively established. That--irrespective of forecasts or predilections--must be the governing consideration in any estimate of Italy's post-war role.

This relationship is exhibited most clearly by the fluctuations in the value of foreign trade per head of population under prosperity and depression. It stood at "Lire" 414 per head (in "lire" of 1938 purchasing power) in the "pre-historic" period 1871-1875. It rose from the "Lire" 507 of 1896-1900 to "Lire" 811 in 1913-14.

It was moderately high during the recovery period of 1922-29; it nose-dived almost to the starting point, being only "Lire" 440, in the nine-year period 1930-1938.^{1/} The parallelism with the fluctuations in national income, and above all in real income, was throughout the period very close. It would, of course, be mistaken to attempt to explain a highly complex situation, involving a very large number of variables (some of which non-economic, such as wars) in terms of a causal relationship between, say, foreign trade and national income. But the correlation between those two factors is obvious--and their fluctuations and interplay over the whole period exhibited the high degree of dependence of Italy on world conditions which has already been pointed out.

But nothing would be farther from the truth than to interpret this dependence to mean that Italy is an economic deadweight, never able to pay its way and bound to drag along on eleemosynary support. On the contrary, the record shows that this is bound to be the case only if international conditions are stagnant or deteriorating. In a world of expanding economy, Italy can very well take care of itself, reach a position of full employment, raise gradually but perceptibly its standards of living, and keep its balance of payments in equilibrium. Actually, the very dependence of Italy on world trends, and the heavy impact of even small fluctuations in international income and demand, work both ways: just as a small slump in world demand is sufficient to throw Italy's economy out of gear, a small degree of world revival carries with it more than proportionate benefits to Italy.

1/ Demaria-op, cit, p. 153, and Annuario Statistico Italiano, 1940.

III.

THE TRADE BALANCE.

Italy As An International Trading Country-

A less cursory consideration of the matter requires some references to the pattern of Italy's foreign trade and to the balance of payments.

Though, as we have already pointed out, Italy cannot compare with the United States, Britain and Germany, nor with France, as a world trading country, its foreign trade is of very sizable proportions. Its value was as high as \$1.892 billion in the peak year 1929, and was slightly in excess of a billion dollars even during the last pre-war years. The average annual value of imports over the decade 1929-1938 was \$661.6 million; the corresponding average value of exports was \$507.8. As a whole, in the inter-war period, the value of Italy's foreign trade was approximately the same as that of Canada, India, Japan, Belgium, Holland, and exceeded that of Argentina and Australia. In Europe, Italy occupied on average the fifth or sixth place, and its share of total European foreign trade was around 5 per cent. ^{1/}

The Traditional Trade Pattern-

The historical development of Italy's foreign trade followed a familiar pattern. At the beginning, only domestic materials were processed by the Italian industry. The chief exports were silk, cheese, wines, olive oil, and a few others. Eventually, imported materials were also used--and exports of secondary products developed. In 1913-14, imported materials accounted for 40 per cent of the value of total materials processed. By that time, Italian industrial economy had assumed the configuration inevitable for a country rich in manpower and skills, but poor in fuels and raw materials, that is, it was based essentially on secondary processing industries, relying chiefly on important raw materials and semi-finished products. Accordingly, as of the beginning of the century, Italy's trade balance exhibited a large deficit. ^{2/} The export balance, together with other foreign sources of income, provided the currency required to finance the import of raw and other materials.

^{1/} of. League of Nations - Europe's Trade, 1941, Review of World Trade, 1938, and Network of World Trade.

^{2/} This configuration has remained unchanged up to the present day. Until 1913 the Italian trade balance was negative not only as a whole but also for the balances of all commodity groups taken separately (A.O. Hirschman - The Commodity Structure of World Trade - Quarterly Journal of Economics, August 1943, p. 570). In the inter-war period agricultural exports on the whole exceeded agricultural imports. Another interesting characteristic of the Italian trade balance is that imports exceed exports with respect to almost all countries which are trading with Italy, the only significant exception being Switzerland. (The relevant data can be found in League of Nations - Europe's Trade - 1941, p. 89)

This "self-liquidating" process was of great importance in promoting the expansion of Italian industry. It involved the combination of cheap raw materials (bought in the international competitive market) and cheap--but by no means unskilled--manpower. It brought about, as we have already noted, a striking increase in the national income and in standards of living. In this connection, it may be interesting to note that the ratio of growth in imports from 1901-5 to 1913 was identical to that of growth in the national income.

An Analysis of Imports-

In the inter-war period, imports of foodstuffs fluctuated between one-fourth and one-sixth of the total, and exhibited a marked downward tendency, which was due chiefly to the domestic expansion in wheat production under the much-advertised "battle of the wheat". Raw materials were responsible on average for 40 per cent of total imports--with a tendency to rise. Semi-manufactured products constituted approximately another fifth of the total. The balance (on average 15-16 per cent of the total) was represented by finished products.

A somewhat unconventional but probably more significant analysis of Italian imports can be offered along the following lines. There are first of all what we may call subsistence imports, namely the essential foodstuffs which have to be imported to maintain domestic standards of living at a given conventional (in the case of Italy, low) level. Second, there are what may be called overhead or maintenance imports, namely those required to operate public, industrial and city utilities, transportation and other essential services, solid and liquid fuels, fertilizers, and replacements of essential parts of machine tools and of machinery. These can be considered as "overhead" imports in the sense that they satisfy the overall needs (other than for materials to be actually processed) required to maintain the existing basic level of economic life and activity. There are then the industrial imports, namely the raw materials required for actual processing (and other purposes than "overhead" maintenance), as well as semi-manufactured goods and finished production goods. A particularly significant fraction of those industrial imports is constituted by what may be called export imports, namely that part of the imported materials which is exported after processing or incorporated into finished exported products. (The balance can be said to measure the domestic industrial imports.) Finally, there are the consumption imports, namely the strictly non-essential (such as coffee, tobacco, spirits, etc.) and luxury imports. It will be noted that, under the classification here suggested, it is not always possible to consider the imports of a given commodity as a single lump. Thus, for instance, coal belongs to the "overhead" class for that part that is used as fuel, and to the "industrial" class for the part that is processed by the steel industry.

A fraction of the imports of cotton, wool, wood pulp, etc., is to be included with the "export" imports (rather than with "industrial" imports in general) and so on. Limited quantities of articles of popular consumption (such as coffee) might be listed with "subsistence" rather than "consumption" imports.

A preliminary, and very superficial, analysis for the year 1938, gives the following results:

<u>Category of Imports</u>	<u>Value</u> (in millions of lire)	<u>Percent of Total</u> (approx.)
Subsistence Imports	1,600	14%
Overhead Imports	2,486	21%
Domestic Industrial Imports	4,675	41%
Export Imports	1,124	10%
Consumption Imports	1,218	11%
Total	11,271	100

The value of industrial output for 1938 was estimated at 65 billion lire.

That output was produced with the use of the following imports:

2/3 of Overhead Imports ^{1/}	1,768 million lire
Industrial Domestic Imports	4,675 "
Export Imports ^{2/}	1,124 "
Total	7,567 million lire

The ratio between the value of the input of imported material and commodities and that of industrial output was therefore, in 1938, 11.6 per cent. On the assumption that the input was evenly spread, in the appropriate proportions, over all items of output,

^{1/} It has been estimated (Office of Economic Warfare - RR-65 Evaluation of Italian Industries for Purposes of Occupation, 1943) that the other third was absorbed by non-industrial utilities and services.

^{2/} Export Imports have been calculated (admittedly in a somewhat arbitrary way) by adding to the known share of basic materials, such as cotton, wool, wood pulp, etc., absorbed by export production, a flat 10 per cent from the total value of industrial imports, which was in 1938 of 5,122 million lire. Industrial imports included not only raw materials but also semi-finished production goods.

irrespective of their ultimate domestic or foreign destination, this can be described as the import content of exports.^{1/}

The particular figure itself is subject to a considerable margin of error, and no definite conclusions should be drawn unless the analysis is extended to cover a period of at least 8-10 years. However, it gives an idea of the order of magnitudes involved. The same applies to the analysis of imports.

Conclusions Regarding Imports-

Whatever the actual "normal" percentages of the various classes, the foregoing table gives a number of valuable clues to the understanding of the Italian import problem.

It will be seen, first of all, that subsistence imports do not play a disproportionate role--nor are they likely to do so, once the dislocation inherent to the war will be over. However, there is likely to be a departure from the excessive emphasis placed on wheat-growing under fascism, and the level of foodstuff imports is likely to be higher than it was in the years immediately before the war.

It is also apparent (though it would be unwise to arrive at definite conclusions until more adequate investigations of the problem are made) that the share of imported materials processed by the export industries is also comparatively small. It is also believed that the share of overhead imports (primarily fuel) required by the export industries is not very large.

On the other hand, the requirements for "overhead" and "domestic industrial" imports are formidable, and are bound to constitute quite a problem, unless world trade conditions are favorable.

The overhead imports constitute to a great extent a rockbottom minimum, which is to be satisfied if industry and essential services (including transportation) are to function at all. The further development of the electric power industry and of railroad electrification can alleviate the problem; but, if past experience affords any guidance, they can help to contain within narrower limits the increase in fuel and other requirements, rather than to compress them further. Besides it is much to be feared that the war and, above all, German systematic destruction may inflict grave damages to the electric

^{1/} The significance of the measurement of the import content of exports lies in the fact that it gives an indication of the rate at which imports have to increase if a given rate of increase in exports is desired. However, with respect to any given short-term situation, it would be necessary to estimate the marginal, rather than the average ratio of the import content of exports.

power plants, which are the pride of Italy.^{1/} If so, the fuel and power problem will acquire and maintain staggering dimensions for many years.

As to domestic industrial imports, these have been in the past, and are likely to continue to be the lifeblood of Italian production and employment. In the past--with the exception of the brief spell of infatuation for "autarky"--their development was to a large extent a function of the growth of exports as a whole. So long as world trade and output were expanding and the yield of the "invisible items" (emigrant's remittances, shipping freights, etc.) was high, no difficulty whatever was experienced in obtaining these imports. In the inter-war period, of course, things went very differently: and the difficulties, which were real enough, were intensified by the policies of nationalism and "self-sufficiency" of the fascist government.

After World War I, Italians became very conscious of the "raw materials problem". In later years, a skillful and unceasing propaganda persuaded many of them that Italy had a real grievance against the great colonial powers endowed with a wealth of raw materials. A good deal about it was heard in the period of the aggression against Abyssinia and the dispute with the League of Nations.^{2/}

This is not the place for a discussion of the so-called problem of raw materials. It is permissible to surmise, however, that the issue is unnecessarily befogged by two opposite misconceptions. The one is that the difficulties of the countries which are poor in raw materials could only be eliminated through the physical possession of colonial and other territories endowed with rich natural resources. The other is that so long as all countries can purchase on equal terms and without discrimination the raw materials of the world, wherever these are located, there is no other problem or difficulty involved. The crux of the problem, with respect to peacetime conditions, and once discriminations, monopolistic practices and the like have been eliminated, is another: namely, whether the would-be purchasers have access to adequate supplies of the currencies in which those materials are to be paid. In other words, it is whether or not they are permitted to export goods and services to the extent

^{1/} As far as it is known, the Germans have sabotaged and demolished most of the city and other power plants in Southern Italy. The great installations of the Sila mountains are believed however to have escaped.

^{2/} It is interesting to point out, on the other hand, that the exaggerated fears about the procurement of raw materials which were current after 1919 was demonstrated to be baseless by an Italian writer, Professor Corrado Gini, in his Report on the Problem of Raw Materials and Foodstuffs, League of Nations, 1921.

required to finance the purchases of raw materials which are essential to maintain full employment and a reasonable standard of living.

The problem of raw materials is therefore to a large extent only one aspect of the wider problems relating to the expansion of international trade and the equilibrium of the balances of payment.

The Atlantic Charter of course pledges to all states, great and small, victor and vanquished, access on equal terms to the trade and to the raw materials of the world. This implies a recognition of the vital truth that the mere access to raw materials, without a corresponding access to world trade, would be meaningless--and that the free procurement of raw materials can only go hand in hand with a large degree of freedom in international trade as a whole. It can be surmised, therefore, that a few decades of expanding world trade, by giving to the "have not" countries access to an adequate supply of dollars and other "scarce" currencies, would effectively dispose of that "problem" as such.

An Analysis of Exports-

Exports of foodstuffs fluctuated in the inter-war period between one-fourth and one-third of the total. Raw materials constituted only a small (and declining) fraction--from 12 to 8 per cent of the total. Manufactured and semi-manufactured products constituted by far the most important class, and were responsible for about 60 per cent of the total. The basic pattern of Italy's export trade can be seen with reference to one of the recent years, say 1938, as follows (value terms):

Vegetables and Fruits	22.1% of total	
Cereals and Legumes	3.9%	
Cheese and Dairy Products	2.6%	
Wines	<u>2.4%</u>	
Total chief foodstuffs		33.0%
Cotton Goods	9.9%	
Rayon and Synthetic Fibers	8.7%	
Wool Articles	5.8%	
Hemp	4.0%	
Silk and Silk Articles	<u>3.8%</u>	
Total Textiles		32.3%
Vehicles (chiefly automobiles)	5.6%	
Sulphur, Marble, Non-metallic Minerals	<u>6.2%</u>	
		<u>11.8%</u>
Total of these groups in total exports		77.1%

Thus, a comparatively small number of items was responsible for almost 80 per cent of total exports. Foodstuffs and textiles alone represent one-third each of the total. Clearly, these were the two chief pillars on which Italy's export trade stood before the war.

The weakness of the export trade pattern is obvious. Minerals and strategic materials are almost non-existent, with the exception of quicksilver and sulphur. Italy controls almost 40 per cent of the world production of quicksilver (the balance being produced by Spain), and is by far the biggest producer of sulphur outside the United States. However, the values involved are comparatively small. The bargaining position is also good with respect to rayon: before the war Italian production (all concentrated in the Snia-Cisa group) was the third highest of the world (after Japan and the United States), and the Snia, though partly controlled by British (Courtaulds) and German (Glanzstoffe A.G.) interests, had an important voice in cartel and other international agreements. But the bulk of other Italian exports was constituted to an almost overwhelming degree by highly competitive articles. Silk production, of great importance in the past, had been almost ruined by Japanese competition and by the rise of rayon. Citrus fruits faced the increasing competition of Spain and Palestine on their traditional markets (Central Europe and Britain). Cotton goods--and to a smaller degree woollen textiles--were subject to competition from Lancashire, Japan, India, and from the infant textile industry in process of development in many other countries. Cheese and wines could rely on a fairly stable foreign clientele, but were meeting growing competition in their most valuable market, the United States. Automobiles, marble, and many nondescript export articles (including antiques) were primarily luxury goods.

The Terms of Trade- 1/

The extent to which the weakness of the Italian export pattern (combined with the rigidity of essential import requirements) makes the country vulnerable to international trade fluctuations is documented by the changes in value and quantum of Italian foreign trade during and after the Great Depression, as shown in the

1/ For a discussion of the conception of "terms of trade" and of its statistical determination, cf. G. Haberler, Theory of International Trade, pp. 159-66. "Price" indexes of the terms of trade are computed by dividing the indexes of export (or, alternatively, import) prices by those of import (or, alternatively, export) prices. Accordingly, they measure percentage changes in export (or import) prices with respect to percentage changes in import (or export) prices. The same operations can be performed on the quantity indexes to obtain the corresponding "quantity" indexes of the terms of trade.

following table:

Year	Import indexes			Export indexes		
	Value	Price	Quantity	Value	Price	Quantity
1929	81.3	73.0	112.1	81.5	72.5	114.9
1930	66.2	63.2	103.7	66.3	60.6	109.3
1931	44.4	49.2	89.3	55.9	49.2	111.4
1932	31.6	39.1	80.0	37.3	40.9	91.1
1933	28.4	35.2	79.8	32.8	35.8	91.3
1934	29.3	34.0	85.3	28.6	33.0	86.6
1935	29.7	35.5	82.9	28.7	33.1	86.6
1936	23.1	43.2	52.8	30.3	37.3	81.3
1937	53.2	67.3	77.7	57.1	47.1	120.9
1938	43.0	64.0	65.7	57.2	48.2	117.6

Source: U.S. Tariff Commission, op.cit. pp. 276-7.

It is clear that, while during the early years of the Depression the fall in export prices was more than compensated by that in import prices (because of the catastrophic slump in raw materials and staple commodities prices), later on the maintenance and, indeed expansion^{1/} of a large volume of exports involved a sharp deterioration in the terms of trade.

^{1/} It should be noted that 1937 and 1938 were two years of restocking, following the strain of the Abyssinian war. Those more than normal import needs led to an export drive, involving a good deal of subsidisation and dumping.

Indexes of Italy's Price and Quantity Terms of Trade, 1925-38 ^{1/}
(1925=100)

<u>Year</u>	<u>Index of terms of trade</u>		<u>Year</u>	<u>Index of terms of trade</u>	
	<u>Price</u>	<u>Quantity</u>		<u>Price</u>	<u>Quantity</u>
1925	100.0	100.0	1932	104.6	113.9
1926	105.0	98.3	1933	101.7	114.4
1927	105.2	104.7	1934	97.1	101.5
1928	104.1	93.4	1935	93.2	104.5
1929	99.3	102.5	1936	86.3	154.0
1930	95.9	105.4	1937	70.0	155.6
1931	100.0	124.7	1938	75.3	179.0

Mr. Colin Clark^{2/} made the following international comparisons of price terms of trade (computed as in the above table) between 1933 and 1937. It will be seen that the deterioration in that period was much greater for Italy than for any other country.

^{1/} The three indexes are based on the price and quantity indexes of the previous table. The price indexes of the terms of trade have been computed by dividing the indexes of export prices by those for import prices. Therefore, they indicate the average changes in export with respect to import prices. The quantity indexes have been computed by dividing the quantity indexes of exports by the corresponding quantity indexes of imports. Accordingly, they indicate average changes in export with respect to import quantities. For a discussion of Italy's terms of trade after 1925 cf. U.S. Tariff Commission - Italian Commercial Policy and Foreign Trade, 1922-40, pp. 275-282; and League of Nations - Review of World Trade, 1938, p. 44. All Italian trade figures are quoted from the Annuario Statistico Italiano.

^{2/} Conditions of Economic Progress, p. 456,

Price Terms of Trade
(1927=100)

	<u>1933</u>	<u>1937</u>		<u>1933</u>	<u>1937</u>
U.S. America	137.8	128.9	Hungary	78.2	91.1
Germany	139.2	114.3	Canada	75.5	89.3
France	118.9	113.7	Chile	82.7	89.1
Finland	91.6	110.7	Yugoslavia	71.3	89.0
Great Britain	122.3	107.3	Ireland	92.3	87.8
South Africa (exc. gold)	84.3	101.2	Denmark	82.5	78.1
Norway	103.2	100.3	Italy	97.0	67.7
Latvia	61.6	94.1	Dutch East Indies	68.6	67.2
Estonia	79.0	91.8	Japan	81.9	60.5

While some of the features of that particular period were certainly abnormal, the lesson to be drawn from those fluctuations is quite clear. Italian agricultural exports do not consist of staple commodities, and as such they are to some extent sheltered from the extreme price fluctuations to which the latter are subjected. On the other hand, Italian industrial exports are in a very weak position, because of the high degree of inelasticity of their demand. Thus Italy in the 1933-37 period lost ground (as far as the terms of trade were concerned) not only in comparison to preponderantly agricultural but also with respect to the chief industrial countries.

It follows that if a trade recession or additional trade barriers hit Italy's export trade, or abnormally large import requirements necessitates a corresponding export increase, domestic adjustments in the industrial cost-price structure, and price cuts, are not likely to improve the position materially. Other circumstances being equal, the income level of foreign buyers--rather than prices--is the chief factor which governs the value of Italy's export balance. This point, of course, is of the greatest importance.

Geographical Distribution of Trade-

From the geographical point of view, Italy has always been dependent, in varying but substantial proportions, on both European (including British) and oversea trade. Between 1909 and 1913, Italy imported from Europe some 50 per cent of its requirements, and exported to it on the average 66.6 per cent of its total exports. The latter figure was high in itself, but lower than the one which obtained for all other industrial countries on the continent. After the war, the export trade with North and South America, Africa, and Asia increased in importance--so that on average, in 1925-30, the European markets absorbed a somewhat lower percentage--59.2--of total exports. On the other hand, the European share of Italian imports increased--though at least in the 1936-38 period this was due chiefly to political

developments. "Exports" to Italian dependencies, which had been negligible until 1935, jumped from that year to an abnormally high level. This was the result of the Abyssinian war and of the ambitious colonization schemes launched in East Africa and in Lybia. Actually, of course, those "exports" were simply a drain on the metropolitan resources. Imports from the colonies, though increasing, continued to be almost negligible also after 1936.^{1/} The all-round changes in the geographical distribution of trade wrought by the Depression and later developments can be evinced by the following table:

Italian Imports of All Merchandise, By Continents and Principal Suppliers, for Specified Years, 1922 and 1938.
Percent of Total Value

	<u>1922</u>	<u>1925</u>	<u>1931</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
All Countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Non-Italian Countries	99.7	99.5	99.3	98.8	98.4	97.4	97.5	98.1
Italian Dependencies	.3	.5	.7	1.2	1.6	2.6	2.5	1.9
America	38.3	34.0	22.3	21.0	20.3	24.7	24.2	20.1
United States	27.9	23.6	11.4	12.5	11.3	14.8	11.0	11.9
Argentina	4.9	5.2	4.8	3.6	3.8	3.0	7.5	2.4
Other America	5.5	5.2	6.1	4.9	5.2	6.9	5.7	5.8
Asia	7.8	9.8	7.6	8.2	7.9	5.7	8.5	7.2
British India and Ceylon	4.7	6.6	4.1	4.6	3.1	2.3	3.6	2.4
Other Asia	3.1	3.2	3.5	3.6	4.9	3.4	4.9	4.8
Africa ^{2/}	2.7	3.8	3.9	6.4	6.9	4.9	6.6	6.0
Europe ^{3/}	45.1	47.0	62.5	59.9	62.4	60.9	54.7	62.5
Germany	7.9	8.3	13.2	15.8	18.3	26.8	18.6	26.7
United Kingdom	12.8	10.4	9.4	9.2	7.3	.9	4.0	6.5
France	7.3	9.0	7.1	5.7	6.0	2.1	3.5	2.3
Austria	2.1	2.6	2.5	2.5	3.5	6.1	4.5	4/
Rumania	1.8	.5	2.8	1.6	3.1	3.7	2.8	2.2
Switzerland	2.1	2.0	3.4	3.8	3.2	3.9	3.0	3.3
Hungary	.4	.3	1.3	1.3	2.0	3.6	2.9	1.7
Other Europe	10.7	13.9	22.8	20.0	19.0	13.8	15.4	19.8
Oceania	5.5	4.8	2.8	3.1	.9	1.0	3.4	1.9
Australia	5.5	4.7	2.7	3.0	.8	1.0	3.4	1.9
Other Oceania	5/	.1	.1	.1	.1	5/	5/	5/

Source: Commercio di Importazione e di Esportazione and U.S. Tariff Commission op.cit., p. 84.

^{1/} For an analysis of the trade between Italy and its dependencies cf. U.S. Tariff Commission, op.cit., pp. 104-9 and Appendix III.

^{2/} Does not include Italian dependencies.

^{3/} Turkey and Russia included in Europe.

^{4/} Included in Germany.

^{5/} Less than 0.05 percent.

Italian Exports of All Merchandise, By Continents and Principal
Markets, for Specified Years, 1922 to 1938
Percent of Total Value

	<u>1922</u>	<u>1925</u>	<u>1931</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
All Countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Non-Italian countries	98.6	98.4	97.6	95.0	85.7	69.0	75.3	76.7
Italian dependencies	1.4	1.6	2.4	5.0	14.3	31.0	24.7	23.3
America	19.6	21.6	22.0	15.5	15.3	18.0	15.1	15.8
United States	10.9	10.4	10.2	7.4	8.0	9.9	7.5	7.5
Argentina	5.4	6.3	8.1	4.2	3.1	2.9	3.9	3.9
Other America	3.3	4.9	3.7	3.9	4.2	3.2	3.7	4.4
Asia	2.5	4.2	5.4	5.2	4.7	2.6	4.4	4.1
British India & Ceylon	1.1	1.8	1.9	2.3	1.8	.9	1.4	1.5
Other Asia	1.4	2.4	3.5	2.9	2.9	1.7	3.0	2.6
Africa ^{1/}	3.9	5.1	4.5	5.2	4.7	3.4	5.6	4.8
Europe ^{2/}	70.5	65.9	64.9	67.8	59.6	46.1	49.1	50.9
Germany	10.4	11.1	10.7	15.9	16.2	19.6	14.4	19.1
United Kingdom	12.0	10.1	11.8	10.1	8.2	2.8	6.1	5.6
France	14.7	11.1	10.9	6.7	5.8	3.4	4.2	3.1
Switzerland	13.0	8.9	7.5	8.4	6.4	6.2	4.9	4.7
Austria	2.4	3.6	3.1	2.3	2.6	3.5	2.8	(3)
Rumania	1.0	1.7	1.2	1.4	1.3	.4	1.2	1.3
Hungary	.3	.5	.9	2.5	1.7	2.1	1.9	1.6
Other Europe	16.7	18.9	18.8	20.5	17.4	8.1	13.6	15.5
Oceania	.7	.7	.3	.7	.8	.4	.6	.7
Australia	.7	.6	.3	.6	.7	.3	.6	.6
Other Oceania	(4)	.1	(4)	.1	.1	.1	(4)	.1

Source: Commercio di Importazione e di Esportazione and U.S. Tariff
Commission op.cit., p. 84.

^{1/} Does not include Italian dependencies.

^{2/} Turkey and Russia included in Europe.

^{3/} Included in Germany.

^{4/} Less than 0.05 percent.

The distribution of the trade balances varied as follows:

Direction of Trade and Distribution of Trade Balances^{1/}

<u>Group</u>	<u>Share of Imports</u>		<u>Share of Exports</u>		<u>Balance of Trade in new \$ gold</u> (000,000's)	
	<u>1928</u>	<u>1938</u>	<u>1928</u>	<u>1938</u>	<u>1928</u>	<u>1938</u>
			(percentages)			
Germany, Austria	12	27	16	19	- 34	- 53
Belgium, France, United Kingdom	21	10	21	10	- 139	- 4
Other European Industrial Countries	5	9	5	9	+ 10	- 3
Rest of Europe (excluding U.S.S.R.)	10	17	18	15	- 8	- 24
Italian Oversea Territory	1	2	2	23	+ 14	+ 123
Rest of World	51	35	38	24	- 499	- 78
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>- 656</u>	<u>- 39</u>
Total						

Thus it will be seen that there was a reorientation of trade toward Germany and away from Britain, Belgium, and France--namely from the "western" to the "central" European area. Some increase took place in trade with other European industrial countries and in imports from European agricultural countries (Hungary, Yugoslavia, etc.)--but the balance of trade with these groups tended to become passive, or less active than before, thus moving in a direction contrary to that of Italy's total balance of trade. Exports to Italian colonies became important--which was, however, a transitory effect of the Abyssinian war and its aftermath, as well as of the colonization schemes in Lybia. Trade with the rest of the world, and the deficit in this trade, was greatly reduced.

The reorientation of Italian foreign trade toward Germany and Central Europe was clearly due preponderantly to political factors. Accordingly, a better idea of the "normal" geographical pattern is to be obtained from pre-depression figures. In 1925, Italy's foreign trade was fairly evenly apportioned among the principal relevant trading areas. The United States supplied 23.6 per cent of total imports, and absorbed 10.4 per cent of total exports. The pound area (U.K., India, Australia, etc.) supplied 23.8 per cent of the imports and bought 15.6 per cent of the exports. France and Switzerland together supplied 11 per cent of the imports and purchased 20 per cent of the exports. The corresponding figures for Germany were 8.3 per cent and 11.1 per cent. In some respects,

^{1/} League of Nations - Europe's Trade, p. 45.

the regional distribution of the Italian import trade is fairly rigid: for instance, the United States is bound to be the chief source of supply for cotton, Austria and Scandinavia for wood pulp, etc. In others, several alternative sources are available; England Germany, or Poland for coal (though the higher quality of Cardiff coal makes it particularly desirable, at least for certain uses), America or Russia and Rumania for oil, Australia, Argentina and South Africa for wool, etc. With regard to exports, Italy has been gradually but steadily losing ground on some of the rich old-established markets, such as Britain and the United States; offsetting those losses, to some extent, by additional sales either to Germany or to less developed and comparatively poorer countries, such as Argentina, Yugoslavia, Turkey, Egypt, etc., though this implied to meet an increasing degree of Japanese competition, especially in textiles.

One recent shift which may perhaps prove to be more permanent^{1/} has been in the direction of increased trade with the Balkans. These absorbed in 1937 8.3 per cent and in 1938 7.8 per cent of total Italian exports--and supplied respectively 9.7 per cent and 10.2 per cent of all imports. Italian-Russian trade before 1913 was of some importance. In the interwar years it was very erratic, and after 1936 fell to very low proportions.

The growing importance of the poorer markets for Italian export trade in recent years offers probably a clue to the directions toward which post-war trade could be oriented. In other words it is likely to prove increasingly difficult for Italy to regain and even less so to expand its trade with the old and rich markets. But Italian exports of, say, cotton, wool, and synthetic yarn could be of increasing assistance to those countries which are beginning to develop a domestic textile industry; and, by and large, a growing demand for the industrial Italian exports might arise as a result of the development of a number of "poorer" countries, both in Eastern Europe and overseas.

^{1/} It remains to be seen, however, how much that shift was due to actual complementarity with the economy of the Balkan countries, and how much to the clearing devices and the political agreements ("Rome Protocols", etc.) of 1934-40.

IV.

THE FUTURE OF ITALY'S FOREIGN TRADE

Multilateralism-

This leads us to a general appraisal of the long-term prospects of Italian export trade as a whole. Agricultural exports should be able to find sizable markets, though the impoverishment of Germany and Central Europe is bound to affect them unfavorably for many years to come. The future of industrial exports will be entirely conditioned by world developments. For if on the one hand the old rich markets continue to reduce their purchases, and on the other the younger poorer markets develop their economy along highly protectionist and self-sufficiency lines, the prospects are very bleak indeed. Salvation may come from either of the following developments:

- a) a restoration of a large degree of free multilateral trade;^{1/}
- b) the vigorous development of comparatively backward countries, with the help of the great financial countries, and along lines apt to develop triangular and multilateral trade.

Autarky-

Any other alternative would obviously involve serious disadvantages. Italy might be driven once more along the dangerous and foolish path of a maximum degree of self-sufficiency. This, as the fascist experiment conclusively shows, would not work. Actually Italy has not the slightest chance of ever becoming self-sufficient in any significant sense. The limited possible development of synthetic and other productions would once more crush the modest but definite potentialities of the country under the deadweight of a high-cost and unproductive industrial structure.^{2/} The pressure on standards of living would sooner or later become intolerable.

^{1/} The considerations in favor of a free multilateral system after the war, stressed in Network of World Trade (particularly pp. 5, 10, 87 and 95) by the economic staff of the League of Nations, apply almost without reservations to Italy. The advantages of multilateralism for Italy have been very ably set out by Messrs. Clough and Gideonse in a memorandum submitted to the State Department on April 7, 1943.

^{2/} This has been conclusively demonstrated by G. Demaria- op.cit. There are however certain exceptions, of which the rayon industry is the most important. Insofar as synthetic productions are largely based on coal and oil, Italy is obviously out of the picture. There may be room however for developments in other lines.

Bilateralism-

Bilateralism, clearings and barter-trade also hold out very little hopes for Italy. Insofar as bilateral arrangements of a large and comprehensive scope could be made with the smaller countries, they would hardly be a solution; and insofar as they would be made with larger countries they might very likely lead to the loss of independence--as bilateralism with Germany did after 1936.^{1/}

Regional Arrangements-

This brings us to the last, and perhaps only possible alternative to multilateralism and free trade, the establishment of closer connections with either Russia or the British Empire. The first move might involve a noteworthy commercial expansion in the Balkans, but practically it would be tantamount to the absorption of Italy--for good or evil--into the Soviet Union. A close economic (and inevitably political) partnership with the British Empire, or, by and large, with the pound trading area, would be likely to confer important and lasting economic benefits; though, of course, would make of Italy one of the outposts of the far-flung British Empire, with the correlative dangers. It is very much to be doubted, however, whether the British would be prepared to accept Italy into a partnership, in which--despite the undeniable strategic advantages--Italy would be an economic liability more than an asset. Historical and psychological factors also seem to rule that possibility out, at least for many years. There would remain, however, the possibility of some sort of indirect and more practicable partnership, through closer ties with France, Spain, and a Western-European bloc linked economically to the pound area. This would be an arrangement which would have very much to recommend it, being of more limited scope, and fitting more realistically into the stratified regional structure which is likely to emerge in the post-war world. The economies of Italy and Spain are actively competitive in many respects--but could be brought closer together, within the context of a wider system involving the backing of one or more first-class economic or financial powers. There is a good deal of complementarity between the Italian and the French economies.^{2/}

^{1/} Abstraction has been made here from the drawbacks of clearing and bilateral arrangements in general, which have been discussed in previous memoranda prepared in this Division by Professors Ellis and Haberlor, Mr. Gershenkron, and others.

^{2/} Though France and Italy are competitors in certain lines (wines, silk manufactures and textiles), there is a basic complementarity between the two economies. France has iron ores, coal, (if the Saar basin reverts to French control) and capital. Italy has sufficient manpower. Both countries have skills and capabilities which could easily and advantageously be blended together.

but the traditional jealousies and suspicions, intensified by the 1940 "stab in the back",^{1/} are bound to make extremely difficult a really intimate "rapprochement", unless attitudes change rapidly and unexpectedly. On the other hand, more limited but far-reaching arrangements with respect to raw materials, trade and migratory labor could develop French-Italian relations along mutually profitable lines, especially if those ties should develop within a wider framework, involving economic collaboration with Britain, the United States, or--even better--with both.

Trade Prospects with the United States-

Trade relations with the United States are very important for Italy. In recent years, the United States has been Italy's second largest supplier of imports (after Germany), and the second or third largest market for exports. In 1938, purchases from the United States constituted 11.9 per cent of total Italian imports, and sales to the United States were 7.5 per cent of total Italian exports. On the other hand, which is inevitable, given the differences in size, population, and wealth between the two countries, Italian supplies constitute only a small fraction (1.7 per cent in 1939) of American imports, and Italian purchases only a small part (1.9 per cent in 1939) of total American exports.

In the interwar period, United States imports from Italy reached their peak in 1927 (\$108.9 million). Their value declined sharply during the Depression, and never revived substantially: the figures were \$38.5 million in 1933, \$47.4 million in 1937, \$38.8 million in 1939.

United States exports to Italy were \$203.7 million in 1925, \$152.5 million in 1929, \$48.4 million in 1932, \$77.2 million in 1937, \$58.5 million in 1939.

The deficit in the Italian trade balance with the United States declined from \$101.5 million in 1925 to \$5.9 million in 1932, \$29.6 million in 1937 and \$19.5 million in 1939.

The chief factors which adversely affected American-Italian trade after 1939 were, in addition of course to the Great Depression, the Smoot-Hawley Tariff Act of 1930 and, in later years, the fascist policies of "self-sufficiency".

^{1/} On the other hand, in the fateful days of May-June 1940 hundreds of thousands of Italian laborers (many of which belonging to the "migratory" class) residing in France volunteered to fight for the Republic.

This is not the place for a detailed discussion of American-Italian trade relations.^{1/} It will be sufficient to say that in recent years the Italian export trade in foodstuffs to the United States contracted not only on account of the higher tariffs but also because of the diminishing importance of the demand of Italian-born residents of America and of the growing production of Italian specialties in the United States. On the other hand, Italy concentrated its demand for American imports on essential raw or semiprocessed commodities, in particular, raw cotton, crude petroleum, iron and steel scrap, and refined copper.

It can be expected that after the war Italy will continue to be highly dependant on American imports (even though there may be a falling off in the demand for scrap metals and copper), while at the same time Italian exports will face increasing difficulties on the United States market. Thus, unless the yield of the invisible items is sufficiently high, the procurement of adequate amounts of dollar exchange will confront Italy with a very acute problem.

Reciprocal trade agreements, along the lines consistently advocated by Secretary of State Hull, would certainly be extremely useful in mitigating those difficulties. Needless to say, adequate short-term commercial loans will be necessary to revive Italian-American trade. A detailed study of these two subjects would be timely and rewarding.

^{1/} This has been done in the excellent study of the U.S. Tariff Commission already mentioned.

V.

THE BALANCE OF PAYMENTS

The role of the United States-

Whatever the nature of the Italian political and economic post-war arrangements, and no matter what amount of help that area could receive through regional or semi-regional agreements, it is not to be expected (except of course if Italy is absorbed into the Soviet system), that Italy can achieve a tolerably balanced and secure international economic position unless it is made possible by American developments.

This is true first of all in the general sense that American policies and developments will be paramount in influencing the world economic picture. It is true in a more limited but more direct sense, in connection with the problem of the Italian balance of payments.

The 1900-1913 pattern-

Italy's balance of payments will be discussed in detail in a later memorandum, and for this reason we may confine ourselves to a few brief references to that problem.

The "self-liquidating" process mentioned in sect. 31-32, activated by both the import and export trade was, of course, never sufficient in itself to balance Italy's international accounts. Indeed, a considerable trade deficit already in 1900-1913 had become a standing feature of Italy's balance of payments; but it was offset by the yield of the "invisible" items, chiefly emigrants' remittances, tourist trade, freights, and shipping services.

The typical pre-World War I configuration can be gauged by the balance of payments for 1913, which was as follows:

	Debit items		Credit items	
	million lire	% of total	million lire	% of total
Imports, exports	3,646	94.6	2,512	65
Interest, dividends	150	4	70	1.8
Emigrants remittances	---	---	700	18.7
Tourist expenditures	---	---	450	12
Freights, commissions, etc.	---	---	120	2.5
	<hr/>	<hr/>	<hr/>	<hr/>
	3,796		3,852	100.0
Exports of capital:				
Re-import of Italian bonds, other debit items	56	1.4		
	<hr/>	<hr/>		
	3,852	100		

Source: G. Borgatta - The Italian Balance of International Payments
p. 32 Recapitulation of Statistical Documents submitted by the
Italian Delegation to the World War Foreign Debt Funding
Committee, 1925.

Thus, the balance on current account was in equilibrium, and there was even a surplus which was applied to the redemption of the foreign indebtedness (which, however, had never been very considerable).

The interwar pattern-

The interwar period can be divided into two phases. The first, which lasted until 1926-27, was dominated by currency difficulties arising from the growing exchange depreciation. The export trade was of course comparatively favored by those developments, but the rise in import values placed a very great strain on the balance of payments, which was increased by the declining yield of emigrants' remittances.

However, the situation was temporarily eased by the monetary stabilization of 1926-27, and a short-lived but substantial inflow of American loans.

The impact of the Great Depression inevitably threw the entire system out of gear. Trade difficulties became formidable, and furthermore the yield of the invisible items declined to very small proportions. When the worst part of the American Depression was over, the tourist trade revived; but emigrants' remittances continued to exhibit a marked downward trend. The general picture could have improved after 1935-36, but then the effects of the "self-sufficiency" policy and of monetary mismanagement made themselves felt.

As a result, the balance of payments was consistently unfavorable, and the gold reserve of the Bank of Italy (built up partly with the American loans of 1926-7) dwindled. It decreased from 12.1 billion lire (December 31, 1927) to 5.8 billion (end of 1934). At the end of 1936 the lira was belatedly devalued by 41, and the gold stocks of the central bank were revalued accordingly. But the economic demands made by the Abyssinian war, intervention in Spain and restocking in anticipation of a World War, superimposed on the pre-existing trade and economic difficulties, led to a continuous drain. The gold stocks fell from lire 3.9 billion ("new" lire) at the end of 1936 to 2.7 billion at the end of 1939. The export of gold and dollar assets was actually much greater, for the Treasury had built up a secret reserve (believed to have amounted to approximately 1 billion) out of gold contributions (wedding rings, etc.) collected during the winter 1935-36. In addition, the Treasury confiscated all Italian-owned holdings of foreign currencies and investments (for an amount of several billions), and sold them in later years to meet Italy's exchange requirements.

The last official available estimates of the balance of payments relate to the years 1928-32. Calculations for later years have, however, been made by Dr. Tamagna and others, and are reproduced in the following table:

Italy's Balance of International Payments

Balance of Current Items
(In millions of 1936 lire)

<u>Year</u>	<u>Merchandise</u>	<u>Shipping</u>	<u>Tourist</u>	<u>Remittances</u>	<u>Interests</u>	<u>Net Balance</u>	<u>Gold</u>
1927	- 6,716	+ 1,500	+ 3,500	+ 2,500	- 535	+ 249	- 210
1935	- 4,475	+ 500	+ 1,500	+ 900	- 91	- 1,666	+ 3,926
1936	- 2,879	+ 300	+ 1,100	+ 670	-	- 827	+ 810
1937	- 5,904	+ 1,000	+ 2,500	+ 560	- 125	- 1,969	+ 363
1938	- 3,010	+ 900	+ 1,500	+ 550	- 52	- 112	+ 512
1939	- 1,500	+ 1,100	+ 1,100	+ 500	- 76	+ 1,124	+ 935

Year	Redemption	Balance of Capital Items (In millions of 1936 lire)			Net Balance	Omissions and Errors
		Long-term Capital	Short-term Capital	Miscellaneous		
1927	- 1,375	+ 4,500	+ 120	+ 152	+ 3,397	- 3,436
1935	- 255	-	- 800	-	- 1,055	- 1,205
1936	- 284	+ 1,347	- 500	-	+ 563	- 546
1937	- 269	+ 400	+ 1,100	-	+ 1,231	+ 375
1938	- 334	+ 111	- 100	-	- 323	- 77
1939	- 320	- 98	- 1,361	-	- 1,779	- 280

Military Expenditure and the Balance of Payments-

Interesting questions, which would be worth investigating if the necessary data were available, are the extent to which the heavy military expenditure of the 1936-40 years taxed the Italian balance of payments, and whether the elimination of defense expenditure could be expected to relieve post-war difficulties.

In the last three pre-war years, military expenditure (together with expenditure in Italian Africa, which was to a large extent semi-military) absorbed over 50% of the Italian public revenue, as shown from the following figures:

Year	Defense Expenditure	Expenditure in Africa	Total	Total Government Expenditure
(millions of lire)				
1937-8	13,272	5,820	19,092	38,642
1938-9	15,138	3,958	19,096	39,859
1939-40	27,866	7,356	35,222	60,388

While it is easy to appraise the pressure on civilian consumption brought about by that huge defense expenditure, the effects on the balance of payments are much more difficult to estimate.

Some of the import increases that took place after 1935-6 are clearly imputable to war preparations. Thus, iron, steel and scrap imports increased from 378 million lire (1935) to 798 (1937), 778 (1938) and 681 million lire (1939). Copper imports rose from 211 million lire (1935) to 479 (1937), 377 (1938) and 356 million lire (1939). The great increase in the value of coal imports (from 1,179 million lire in 1935 to 1,981 million in 1937, 1,960 in 1938 and 1,835 million in 1939) is undoubtedly attributable to a large extent to defense production. The same applies to the imports of mineral oils (479 million lire in 1935, 997 in 1937, 914 in 1938 and 867 in 1939), and probably of machinery and parts (421 million lire in 1935, 599 in 1937, 759 in 1938, 717 in 1939).

Thus, with respect to those five items, the additional strain placed on the balance of payments between 1935 and 1937-9 was in the order of 2 billion lire per year; namely an amount more than sufficient, other things being equal, to wipe out the whole deficit of the balance.

However, such a conclusion is apt to be very misleading. For while the fascist defense program involved a considerable increase in certain classes of imports, this was done at the expense of other industrial imports, and to a great extent it substituted war production for the processing for civilian purposes of foreign materials. It is true that also the imports of such basic civilian materials as cotton, wool, etc. increased between 1935 and 1937-39, but much less than they would have done under different conditions; for while the imports of "defense" materials in those years revived to their pre-Depression level, cotton and wool imports picked up only to the extent of about one-third of their old level. Moreover, the imports of fuels (both solid and liquid) would have increased (though to a much smaller extent) also if civilian instead of war production had been increased.

In other words, while the war programs of the fascist government no doubt affected very substantially the trade balance, an alternative program of industrial revival, designed to re-absorb unemployment (still very great in 1934-35) and expand civilian production and exports, would have involved an increase in other items of imports; so that the net effect of defense expenditure on the balance of payments was actually much smaller than the figures quoted above might lead one to believe.

However, there is no question but that armament and "self-sufficiency" investment, before the war, not only affected the Italian standards of living most unfavorably but increased all-round costs and weakened the competitive capacity of the export industries. In that respect, their elimination after the war will probably produce important, even though chiefly indirect, effects on the trade balance and the balance of payments.

The future of the "invisible items"-

What are the long-term post-war prospects of the invisible items? This is very difficult to say. There may be a temporary revival of remittances, stimulated by the abnormal needs of the present and immediate post-war period--but as the ties of former Italian emigrants to the old country become weaker and weaker, the role of remittances seems bound to become eventually almost negligible. Whether the yield of shipping services will return to its pre-war level, is, of course, unpredictable--for no one can tell whether Italy will be able to resume permanently its former important role

in transatlantic passenger transportation.^{1/} The development of air routes which is to be expected after the war is likely in any case to have an adverse effect on that situation, as it will skim off a good deal of the profitable luxury passenger trade. There remains tourist expenditure, and this should presumably continue to be of considerable importance, though it is a factor subject to fluctuate very heavily with American conditions.

All in all, there is little room for optimism about the future of the Italian balance of payments, unless unexpectedly favorable conditions develop with respect to either the export trade or tourist traffic. One item which can perhaps be expected to improve to some extent the situation is remittances from migratory laborers. It would be mistaken, however, to pin great hopes on that factor. True, there may be large openings for Italian migratory labor in the immediate post-war future in connection with the European reconstruction. But in the long run it is difficult to foresee a permanent expansion of Italian migratory labor much beyond the already fairly considerable limits of the pre-war period.

Prospects and Difficulties Ahead-

Given the tremendous destruction and dislocation wrought by the war, it is impossible to state the problem of the post-war Italian balance of payments in quantitative terms. All we can do is to refer to a few typical pre-war situations as "models" of alternative and possible future equilibrium configurations. Thus, for instance, we may refer to the situation of 1927, a year of nearly full employment and comparative prosperity, and to that of 1938, when the state of employment was good but real income and standards of living were lower. In 1927, imports reached the high figure of 20.3 billion lire, and exports of 15.6 billion lire.^{2/} Deducting the trade with colonies, this involved a deficit on the merchandise account of 6.7 billion lire, to which another 535 million have to be added, on the debit side, as interests. Thus total outlays on current account amounted to over 7.2 billion lire. Almost one-half (3.5 billion lire) of that deficit was wiped out by tourist expenditure. Remittances from abroad covered another 2.5 billion lire. Freights and shipping services gave the high yield of 1.5 billion. Thus the balance on current account closed with a surplus of 249 million lire. It is clear that to restore after the war anything resembling that situation would require not only the

^{1/} According to some reports (N.Y. Times, July 31, 1943) Italy has lost 2/3 of its pre-war merchant shipping tonnage and is believed to have little more than 1 million tons left. Many pre-war liners have reportedly been sunk during the war. The crack liners "Rex" and "Conte Di Savoia" are in German hands.

^{2/} In current 1927 lire. In 1936 lire this would be equivalent to 34.4 billion for imports and 26.4 billion for exports.

rehabilitation of Italy's full industrial capacity (at least in the export field) and the rebuilding of its luxury passenger fleet, but also the recurrence of all-round very favorable international conditions. It would require in fact not only an exceptionally high volume of tourist trade, but (in view of the fact the emigrants' remittances have almost ceased to be a really important factor since the Depression) either a high flow of remittances from migratory laborers, or--which is more plausible, though also difficult--an increase in the order of 2 billion in 1927 lire, equivalent to over 3.5 billion 1936 lire, in the export surplus. For the reasons mentioned in sect. 37, this would hardly be possible by an improvement in the competitive position through price cuts, and could only result from the growing demand inhering in a world expanding economy.

A restoration of the 1938 situation (or something similar) would be comparatively easier--though in absolute terms still difficult. During that year, imports amounted to 11.2 billion lire, and exports to 10.4 billion.^{1/} Since, however, the colonies absorbed 2.4 billion of "exports" (against imports for 349 million lire), the actual net trade deficit with the rest of the world was in the order of 3 billion lire. The interest charges transferred during the year amounted to 52 millions. The yield of the invisible items was 1.5 billion for tourist expenditure, 900 million for shipping, 550 million for emigrants remittances. The balance closed with a small deficit of 112 million lire. The 1938 situation differed from that of 1927 in two respects: for, unlike in 1927, there was still a considerable (if partly disguised) amount of unemployment, and because, as a result of the changes in the amount and composition of foreign trade and of the distortion wrought by the expansion of comparatively unproductive investment for purposes of "self-sufficiency", standards of living were much lower. However, in comparison with the difficulties which Italy is going to meet in the first post-war years, and possibly for decades to come, a return to the 1938 situation (with the necessary corrections inherent to a better pattern of industrial and trade policies) would constitute a notable step forward. On the assumption of a large degree of industrial rehabilitation (covering also the shipping industry), a balancing of the current international accounts, at approximately the 1938 level, should not be in the long run an impossibility. Even if there should be a reduction in the yield of the shipping services, an increase in tourist expenditure, or in exports, might take care of that gap.

But, though a restoration of Italy to a balanced state of international payments is not an impossibility, it would be unwise to rely on the truism that in the long run the balance of payments is bound to take care of itself. For this is true at a price, namely through cuts in the domestic real income and standards of living. If standards of living are already very low, it is most unlikely that any country will acquiesce in the painful and prolonged process of readjustment, and will not have recourse to more or less desperate methods.

^{1/} These and the following figures are of course in 1936 lire.

Problems of Transition- Conclusions.

Needless to say, the restoration of Italy's international and domestic position to anything approaching the pre-war level will involve the necessity of large capital imports--under one form or another--over several years.

We have not concerned ourselves in this paper with the formidable problems of the transition period. It will be sufficient, for our purposes, to envisage the following stages along the hard road of Italy's economic rehabilitation:

- a) a relief stage, during which both foodstuffs and essential consumers' goods will have to be imported. This is, of course, the present state of affairs. These imports can be "financed", at least up to a certain point, by the dollar and pound exchange earmarked by the Allied Treasuries against part of the invasion currency issued in Italy, or by some other similar device;
- b) a rehabilitation stage, involving the restoration of farm production to a normal level, and some degree of industrial revival. The question of which industrial activities should receive priority in the rehabilitation hinges partly on the conditions of the equipment immediately after the liberation, and partly on an appraisal of the conflicting claims of employment-creating v. export-producing industries. Clearly, those industries which, like the textile one, are important both in terms of employment and of export trade, should receive priority.^{1/} It is also likely that their equipment will escape wholesale damage and destruction to a greater extent than the highly concentrated heavy and mechanical industries;
- c) an export rehabilitation stage, in which a concerted drive may be made to revive exports to something approximately the pre-war level. This is going to be a difficult but not impossible task. For it would be sufficient to restore the textile and the food processing industries to something approximating their pre-war level to cover almost two-thirds of the road. The comparative "backwardness" of the Italian foreign trade structure would be in itself a help in the circumstances.

At which point on the route Italy may be expected to become solvent and balance its payments on current account, no one can tell. Countless factors, most of them unknown, will have a bearing on the situation. Some principles can, however, be laid down:

- a) Italy's economic rehabilitation is bound to be primarily and essentially a function of Italian effort. Outside assistance will help the Italians to the extent only to which they will actively and aggressively help themselves.
- b) Given a favorable domestic atmosphere, a selective measure of outside assistance in the sectors where it can do most good is an essential prerequisite to the recovery of the area.

^{1/} Detailed plans for the rehabilitation of the textile industry have been prepared by the Foreign Economic Administration.

- c) Once the relief phase is over, there is no reason why foreign investment in Italy--public, semi-public, or private--should not find reasonable opportunities provided, however, that it takes the form of investment rather than loans,^{1/} and that a substantial proportion of its earnings is reinvested in the area. Given a 20-25 year period of expanding Italian and world conditions, past history could repeat itself--and Italian investors could be expected to buy back gradually a large part of that investment. In other words, investment in Italy could not be self-liquidating in terms of a set schedule of repayments (as in the case of loans), but it might conceivably become so, as a result of domestic capital accumulation. This does not mean that foreign investment in Italy should entirely forego the profit-making motive, but that it should become intimately emmeshed with domestic investment, and should not attempt to place a premature strain on the Italian balance of payments.
- d) The degree to which the Italian export industry will be in a position to alleviate the acute shortages of certain consumers' goods (such as textiles) which is expected in Europe and other areas immediately after the war will play a great part in accelerating (or, in the opposite case, retarding) the long range recovery.
- e) While Italy has everything to gain from a state of affairs of multilateralism and free trade, it could hardly stand prolonged ruthless competition in its export markets. Should for instance Lancashire make a deliberate bid for a restoration of its former supremacy, the Italian textile trade would be hard hit; though there might be some compensation if Japan were temporarily eliminated as a competitor.
- f) In conclusion, Italy's only hope and future seems to lie in a moderately but steadily expanding world economy, in which it can perform useful services--especially helpful to the economy of comparatively less developed countries--and above all reap a full share of its advantages in the field of "semi-luxury" international economic relations.

It is not the purpose of this paper to advocate any particular course or type of policy with respect to Italy; nor to overemphasize the importance of that area from the viewpoint of American interests. The assumptions under which Italy could be expected to restore a balanced international economic situation, and those which would be incompatible with such a state of affairs, have been made--it is hoped--fairly clear. It has also been pointed out that, in the event of serious and prolonged international economic difficulties, Italy is not in a position to rely on "compensatory" devices of its own, and may feel inclined to give up its very independence--as Mussolini did after 1936--rather than undergo an extremely painful process of economic readjustment. On the other hand, experience indicates that in a comparatively free and expanding world economy, Italy can play its role and pay its way.

Obviously, from the United States angle, Italy is only part of a wider problem, which involves the future of American post-war relations with the whole of Western and Central Europe and with the Near East.

^{1/} Except with reference to short-term commercial loans.

APPENDIX A)

THE POPULATION OF ITALY.^{1/}Population of Italy - 1861-1936

<u>Census Year</u>	<u>Population (present)</u>	<u>Density per square km.</u>
1861	25,017,000	84.3
1871	26,801,154	90.3
1881	28,459,628	95.9
1901	32,475,253	109.3
1911	34,671,377	117.1
1921	36,361,000	122.4
1931	41,176,671	132.8
1936	42,918,726	138.4

Density of Population - International Comparisons (1936-37)

Italy	138.4	per sq. km.
Belgium	273.1	"
France	76.1	
Netherlands	243.3	
United Kingdom	194.3	
Spain	43.4	
U.S.A.	16.4	
Japan	181.1	

Population of "Metropolitan" Italy (Italy and Italians in Lybia)

December 31, 1937	43,657,107
December 31, 1940	45,010,977
December 31, 1942	45,664,000 ^{2/}

^{1/} Source (unless otherwise specified) Annuario Statistico Italiano, 1940.^{2/} Source: Popolo d'Italia, January 20, 1943

Birth and Death Rates - Net Rate of Increase in Population

<u>Year</u>	<u>Births</u>	<u>Deaths</u>	<u>Net Increase</u>
	(per 1000 inhabitants)		
1872-75	36.8	30.5	6.3
1876-80	36.9	29.4	7.5
1881-85	38.0	27.3	10.7
1886-90	37.5	27.2	10.3
1891-95	36.0	25.5	10.6
1896-1900	34.0	22.9	11.1
1901-1905	32.7	22.0	10.7
1906-1910	32.7	21.2	11.5
1911-1915	31.5	19.7	11.7
1916-1920 ^{1/}	23.0	24.4	1.4
1921-1925	29.8	17.4	12.4
1926-1930	26.8	16.0	10.9
1931-1935	23.8	14.1	9.8
1936-1940	23.2	13.8	9.4

Emigration to Oversea Countries

		<u>To</u>	<u>To</u>	<u>To</u>	<u>To</u>	<u>Other</u>	<u>Total</u>
		<u>Canada</u>	<u>U.S.A.</u>	<u>Brazil</u>	<u>Argentina</u>	<u>Countries</u>	
Average	1901-05	3.931	199.670	40.021	55.702	9.918	309.242
"	1906-10	9.090	266.220	20.652	91.217	6.515	393.694
"	1911-15	14.227	210.940	21.484	51.992	6.434	305.077
"	1916-20	2.199	102.416	3.692	11.112	1.528	121.247
"	1921-25	4.131	45.194	9.705	64.497	7.377	130.904
"	1931-35	415	13,244	1,491	10,165	2,866	28,181
"	1936-40	278	9,684	1,008	5,986	2,773	10,729

Repatriation from Oversea Countries

		<u>From</u>	<u>From</u>	<u>From</u>	<u>From</u>	<u>Other</u>	<u>Total</u>
		<u>Canada</u>	<u>U.S.A.</u>	<u>Brazil</u>	<u>Argentina</u>	<u>Countries</u>	
Average	1902-05	—	89.547	23.052	21,929	1.543	136.071
"	1906-10	—	141.025	15.502	41,552	1.993	200.072
"	1911-15	2.633	131.063	11.339	48.183	2.005	195.178
"	1916-20	1.062	32.078	2,213	10,643	660	46.656
"	1921-25	839	43,295	4,095	14,872	1,219	64,320
"	1931-35	273	14,110	1,211	9,565	2,147	27,306
"	1936-40	109	5,367	605	2,806	974	9,941

1/ 1915-1918 World War I,

Population Projections for Italy, 1940-1970

	1940	1945	1950	1955	1960	1965	1970
Total Population (000's omitted)	42,200	45,700	47,000	48,100	48,900	49,400	49,500

Source: F. Notestein and others - The Future Population of Europe and the Soviet Union, p. 290.

APPENDIX B)

THE NATIONAL INCOME OF ITALY.

Italian national income statistics are rudimentary, and consist only of rough estimates made, at various periods, by independent individual writers. However, together with some other data, they are sufficient to give a thumbnail sketch of changes in both money and real income from the beginning of the present century to World War II.

a) 1900-1913

The earliest known estimate of the national income of Italy was 7 billion lire for 1893 (Nitti).

For 1901, a British writer, Bolton King, gave an estimate of 9 billion.

The greatest increase occurred between the turn of the century and the outbreak of World War I.

Gini computed two independent estimates for 1913, which gave a value of 19-20 billion.

The first consisted in an estimate of the value of the commodities produced and services rendered by the various classes of Italian population (including payment of interest on the national debt)^{1/} as follows:

Agriculture, Pasturage, Forestry, Hunting and Fisheries	7 billion
Industry	6 "
Commerce and Banking	2 "
Public Employment and Personal Services	2 "
Income from Urban Buildings	1 "
Remittances from Emigrants	.5 "
Income from Government Bonds	.5 "
Total	<u>19.0</u> billion lire

The other procedure also adopted by Gini, consisted in a study of food budgets from which it appeared that, before 1913, food accounted for about 60 per cent of family expenditure. This would place the total consumption of commodities for the Italian people, in 1912, at about 17 billion lire. To this should be added from 2.2 to 2.5 billion of savings--giving a total of 19.2-19.5 billion lire. If indirect taxation were added, the total would be slightly in excess of 20 billion lire.^{2/}

^{1/} Income from private investment was presumably included under "Industry".

^{2/} Equivalent to 94-95 billion "lire" at 1925-34 prices.

The average income per head of occupied person was Lire 1337 in 1913, against 734 for 1901. In Mr. Colin Clark's "International Units", real income per head of occupied population for Italy was, in 1913, 410 Units. In terms of a 48-hour week (as compared with the prevailing 60-hour week of the pre-1919 period) real income per head was 328 International Units.

Italy's rise in real income between 1900 and 1913 compared very favorably with that of the chief industrial countries, as shown from the following table:

<u>Year</u>	<u>U.S.A.</u>	<u>Britain</u> (International Units)	<u>France</u> (International Units)	<u>Germany</u>	<u>Italy</u>
1900	1161	865	630	618	210
1913	1191	966	629	704	328

b) The Inter-war Period

National income changes after 1914 were greatly affected by the war, money and price disturbances, and by the Great Depression.

The impact of World War I was naturally very great. The financial cost of the war was in the order of 60-65 billion gold lire. Of this, less than one-third (19.2 billion) was met through American and British loans, while the balance was met out of a national income of approximately 20 (gold) billion lire for each of the war and immediate post-war years. This effort and the difficulties of the immediate post-war years (when the Italian currency was "unpegged" from the dollar and the Allied loans came to an end), involved a very considerable strain, and a deterioration in real income.

After 1923-24 the situation however improved materially, and the value of the national income, in "old gold" lire, rose slowly but steadily, from the 21 billion of 1920-24 to the 23 billion of 1925-26, and reached its peak of 25 billion in 1927-28 (Mortara). The values for 1928-29 and 1929-30 were 24 and 23 billion respectively.

In paper lire, the national income was estimated by Gini to amount to a little over 100 billion lire for 1925.

Gini made two independent estimates. The first consisted of the following computation of the value of commodities produced and services rendered:

Agriculture, Pasturage, Forestry, Hunting and Fisheries	32	billion lire
Industry	36	" "
Commerce and Banking	11	" "
Public Employment and Personal Services	11	" "
Income from Urban Buildings	4	" "
Income from Government Bonds	4	" "
Remittances from Emigrants	2	" "
Total	100	billion lire

The alternative method, based on food budgets, gave a total in the order of Lire 104-105 billion, its components being the value of consumption (97 billion) and the estimated amount of savings (7 to 8 billion). This estimate referred to the whole of Italy, including the regions gained after 1918.

Other estimates, prepared by the staff of the Italian Confederation of Industrialists, gave for 1925 (but with respect to the "old" territory only) lower figures, namely 90 and even 80 billions.

In real terms, it seems that the impoverishment imputable to World War I was gradually wiped out, and the pre-war situation more than restored. According to Mr. Colin Clark (who used Gini's figures), real income per head, in terms of actual consumption, was in 1929 slightly in excess of the 1913 level (426 International Units against 410). If the additional "leisure" gained by the working class as a result of the 48-hour week is considered, the relation was much more favorable (426 against 328 Units).

Then the Great Depression came, and the ground which had been re-gained was lost once more. For, taking the period 1925-34 as a whole (which included five fairly good years and five of depression) the value of real income per head (including the aforesaid "leisure") was only 343 International Units. In terms of actual consumption, the situation was probably worse than in 1913.

National income estimates for the period 1928-1938 are once again of doubtful reliability, but even more so than formerly. Widely varying figures have been quoted (and none of them supported by an adequate statistical basis) for the income of certain years. Gini gave an estimate of 94 billion lire for 1928. Mortara estimated an income of 60 billion for 1931-32 and 64 billion for 1934. For 1936, Cesare Cosciani, after having compared five different computations made by different writers, produced the following estimate:

Agriculture, Forestry, etc.	24.4	billion lire
Income from Urban Dwellings	5	" "
Industry	25.7	" "
Commerce	7.2	" "
Banking	5.9	" "
Public Investment	3.6	" "
Private Investment and Services	4.3	" "
Public Employment	11.6	" "
Total	88.8	billion lire

Agostino degli Espinosa published an estimate of Lire 96.2 billion for 1937, which however overrated considerably, according to all probability, agricultural income. On the other hand, he gave an estimate of 80 billion for 1936.

For 1938, a figure of 90 billions was mentioned by the present writer and Mr. Treves, while Mr. Mazzucchelli and Prof. Einaudi went as far as estimating the national income for that year at 120 billions. The latter estimate probably overrated the effects on prices and incomes of the currency devaluation of 1936. Semi-official Italian estimates for that year mentioned a range of 90-100 billion.

The picture is therefore extremely confusing. However, some clues as to the meaning of the aforesaid estimates in "real" terms, and as to actual standards of living from 1928 to 1934, can be obtained from the following tables:

I. Changes in National Income, Wholesale Prices and Cost of Living

<u>Year</u>	<u>National Income (billions lire)</u>	<u>National Income Index (base: 1928 = 100)</u>	<u>Wholesale Prices</u>	<u>Cost of Living Index</u>
1928	94	100	100.0	100
1934	64	68	62.0	77.4
1936	80--89	85--95	76.4	83.5
1938	90--100--120	95--106--127	95.3	99.12

Sources: For National Income cf. text and Bibliographical Note. For Price indexes, cf. Annuario Statistico Italiano.

II. Changes in Consumption Per Head of Certain Basic Commodities
(Index Numbers - base 1922-3) (Quantities)

<u>Years</u>	<u>Wheat</u>	<u>Fruit and Vegetables</u>	<u>Sugar</u>	<u>Wine</u>	<u>Coffee</u>	<u>Meats</u>	<u>Fats</u>	<u>Tobacco</u>	<u>Corn</u>	<u>Fish</u>	<u>Milk</u>
1922-29	100	105	107	123	96	107	109	99	106	97	114
1930-38	91	88	96	101	76	105	98	81	109	107	121

Sources: Demaria - op. cit. p. 168, and Annuario Statistico Italiano.

III. Annual Changes in Consumption Per Head
(Index Numbers - base 1922-23) (Quantities)

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Wheat	101.3	103.0	96.9	92.1	90.7	95.5	87.3	84.5	90.7	92.4
Corn	102.5	89.3	116.0	128.5	96.8	113.2	99.3	113.2	90.0	134.2
Potatoes	86.7	113.6	103.9	101.3	160.4	137.7	135.1	97.1	107.5	141.9
Dried Beans	115.6	100.0	120.5	123.1	138.5	130.8	123.1	125.6	107.7	112.8
Fresh Legumes	103.8	119.2	138.5	138.5	142.3	150.0	157.7	138.5	173.1	207.7
Vegetables	86.0	90.1	91.5	89.1	94.4	85.0	76.6	73.9	79.5	78.7
Fresh Fruit	111.3	102.3	90.0	95.3	112.0	106.0	92.4	92.7	73.8	83.4
Sugar	113.0	111.7	106.5	101.3	92.2	88.3	88.3	90.9	89.6	100.0
Wine	102.2	131.3	115.6	98.8	100.1	116.6	83.6	79.4	109.3	76.8
Beer	81.3	78.1	62.5	50.0	31.3	28.1	25.0	25.0	18.8	31.3
Alcool	75.0	62.5	50.0	37.5	37.5	25.0	25.0	25.0	25.0	25.0
Coffee	100.0	100.0	91.7	91.7	83.3	75.0	75.0	75.0	58.3	75.0
Meats	123.5	120.0	111.2	112.4	105.3	108.2	107.6	112.9	110.6	106.5
Fish (fresh)	103.2	106.5	109.7	112.9	116.1	119.4	119.4	129.0	132.0	138.7
Dried Fish	92.9	100.0	71.4	85.7	78.6	85.7	92.9	71.4	42.9	85.7
Eggs	79.3	115.5	137.9	93.1	144.8	115.5	141.4	108.6	129.3	146.6
Milk	121.3	121.3	121.7	122.4	123.1	123.5	123.8	122.7	117.3	124.9
Cheese	109.5	111.9	111.9	109.5	116.7	119.0	119.0	121.4	109.5	123.8
Fats	96.8	108.0	107.2	82.6	91.2	87.2	85.6	93.6	86.4	86.4

Source: Annuario Statistico Italiano.

IV. Nutritive and Calorific Content of Average Diet
for Certain Classes of Consumption, 1928-1937.

<u>Years</u>	<u>Proteins</u> (in kgs)	<u>Fats</u> (in kgs)	<u>Carbo-hydrates</u> (in kgs)	<u>Calories</u> ^{1/} (thousands)
1928	43.0	9.8	194.8	1.220
1929	44.1	10.0	198.1	1.258
1930	42.1	9.6	193.7	1.231
1931	40.8	9.3	189.2	1.161
1932	41.6	9.6	186.2	1.160
1933	43.1	9.8	193.2	1.192
1934	40.1	9.7	177.1	1.109
1935	38.8	9.7	173.8	1.100
1936	39.1	9.2	175.7	1.090
1937	39.2	9.8	191.4	1.070

Source: Annuario Statistico Italiano.

^{1/} Calories from Wine, beer, and liquor excluded,

c) Conclusions.

In conclusion, so much can be said for changes in real income (both aggregate and per head) in Italy:

- 1- The growth in real income was very great between 1900 and 1913. As the starting points were extremely low, however, absolute standards of living were still very modest on the eve of World War I.
- 2- World War I caused a certain impoverishment, which however was gradually eliminated during the period 1923-1925.
- 3- During the Depression years, most gains were lost and real income per head for a while was below the 1913 level.
- 4- The quick advance in money income after 1935 was not matched by a corresponding increase in real income. The latter lagged very considerably behind, as a result of higher prices, the great war expenditure, of the compression of consumption resulting from the shift to war and synthetic production, and of the deterioration in the qualities of the goods purchased by the public.

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