

# The Crisis in the Italian Balance of Trade

by

GIULIO PIETRANERA

1. — The gradual tendency towards a reduction of the deficit in Italy's balance of trade which was noticeable over the four year period 1947-50, was reversed in 1951. In 1951 the deficit rose to 305.7 milliard lire; and in 1952 it reached 581.6 milliard.

The data in Table I — expressed in 1938 lire as well as in current lire — illustrate this turn of events which has again drawn public attention to the problem of the disequilibrium in the Italian balance of trade. The gravity of the problem is enhanced by the fact that

ing; in 1952 they attained a level equal, in terms of 1938 lire, to two and a half times the figure for 1938 (27.7 as against 11.26 milliards). Exports were steadily expanding until 1951. In terms of 1938 lire they had regained the pre-war level of 10.5 milliards in 1948, and they surpassed that level by 73 per cent in 1951, when they stood at 18.2 milliard lire. In 1952, however, they shrank to 16.5 milliards, and the excess over 1938 exports was reduced to 56 per cent. The trade deficit fell from 1947 (when it reached a peak) until

ITALY'S FOREIGN TRADE: 1938-1952

TABLE I

Year	Imports			Exports			Percentage of exports to imports	Deficit		
	Current lire Milliards	1938 lire		Current lire Milliards	1938 lire			Current lire Milliards	1938 lire	
		Milliards	Index number (a)		Milliards	Index numbers (a)			Milliards	Index number (a)
1938	11.26	11.26	100	10.5	10.5	100	93.1	— 0.76	— 0.76	100
1946	91.5	3.2	27	64.6	2.2	21	70.6	— 26.9	— 1.1	129
1947	930.6	18.1	159	339.2	6.6	63	36.5	— 591.4	— 11.4	1,493
1948	822.8	15.4	135	570.6	10.5	100	69.3	— 252.2	— 4.9	636
1949	857.1	16.5	151	634.6	12.3	118	74.2	— 222.4	— 4.2	558
1950	900.3	18.8	166	746.9	15.3	146	83.0	— 153.4	— 3.5	454
1951	1,323.6	23.7	210	1,017.9	18.2	173	76.9	— 305.7	— 5.5	714
1952 (b)	1,445.8	27.5	244	864.2	16.4	156	59.7	— 581.6	— 11.1	1,460

(a) Current lire have been transformed into 1938 lire on the basis of the wholesale price index, as calculated by the Central Institute of Statistics.

(b) Provisional.

Source: *Statistica del Commercio con l'Estero*.

it coincides with a serious rise in the budget deficit (1).

Ever since 1946, except for an interruption in 1948-49, imports have been steadily grow-

(1) On the deterioration in the budget situation see FRANCESCO COPPOLA D'ANNA, *The Italian Budget: 1938-1952*, in No. 22 of this Review (July-September, 1952).

1950, when the deficit was at a minimum. In terms of 1938 lire the deficit for 1951 (5.8 milliards) was 50 per cent above that of 1950 (3.5 milliards). The 1952 deficit (11 milliards) is nearly double that of 1951, and is only a little below the record figure of 1947 (11.4 milliards).

Thus the proportion of imports covered by exports, which had risen from 36.5 per cent to 83 per cent in the period 1947-50, fell to 75.9 per cent and 59.7 per cent in 1951 and 1952 respectively (see Table I) (2).

2. — In 1951 the heavier deficit compared with that of 1950 was partly due to the expansion of imports by 423.3 milliard current lire (or by 47 per cent), which was not offset by the growth of exports of only 271 milliard lire (or 36.2 per cent). In 1952 on the other hand, the increased deficit compared with that of 1951 was due only in part to heavier imports (which rose by 122.2 milliard lire, or by 9.2 per cent); it was due in much larger measure to the marked decline in exports. The latter fell by 153.7 milliard lire, or by 15.1 per cent.

TABLE II

ITALY'S FOREIGN TRADE: INDICES, 1940=100

	1951	1952
1. Quantities:		
Imports . . . . .	142.8	156.8
Exports . . . . .	162.0	140.4
2. Prices:		
Imports . . . . .	112.3	109.2
Exports . . . . .	110.4	106.9
3. Values [= (1) × (2)]:		
Imports . . . . .	160.4	171.2
Exports . . . . .	178.8	150.1

Source: « *Statistica del Commercio con l'Estero* », December 1952.

Using the index numbers of prices and quantities published by the ISTAT (3) (Table II), it is possible to determine, subject to the usual reservations concerning such calculations, the extent to which these variations in

(2) In considering the estimates of the values of imports and exports it should be borne in mind that the former are CIF figures while the latter are FOB. Consequently the trade deficit is considerably reduced if imports as well as exports are taken net of freight and insurance. Indeed, it is estimated that freight accounts for 160 to 180 milliard lire of the total cost of imports, and that about 40 per cent of this amount is paid to ships sailing under the Italian flag.

(3) Central Institute of Statistics.

values of imports and exports were due to movements in prices and the extent to which they were due to movements in quantities.

In 1951 the price indices showed an increase of 27 per cent for imports and 21 per cent for exports, compared with the levels of 1950. The quantity indices showed a 16 per cent increase for imports and a 10 per cent increase for exports. The figures indicate that *nearly two thirds of the total increase, of 423 billion for imports and of 271 milliard for exports, may be accounted for by the rise in prices and the remaining third by the increase in quantities* (4).

In 1952 the price indices showed a 3 per cent reduction below the 1951 level both for imports and for exports. The quantity indices showed a 10 per cent increase for imports and approximately a 12 per cent decrease for exports. The increase in the total value of imports (by 122.2 milliard lire), which occurred in spite of the fall in import prices, *is therefore accounted for exclusively by the increase in the volume of imports*. The decline in the total value of exports (by 153.7 milliard lire) appears to be *due to the extent of about one-fifth to the fall in export prices and of the remaining four-fifths to a shrinkage in volume*.

### Causes of the Crisis.

3. — The chief factors that may be considered as having contributed in greater or less degree to the increase in the deficit in Italy's balance of trade in 1952 are the following:

(a) the Italian measures for the liberalisation of imports from EPU countries which — along with other measures tending to encourage purchases from other areas — have brought into being a policy of actively encouraging the expansion of imports, a policy

(4) The quantity indices published by the ISTAT for 1951 indicate increases for that year of 15 per cent for imports and of 4 per cent for exports. These index numbers were however compiled on the basis of partial data and have been corrected to the extent indicated in the *Annual Report of the Governor of the Bank of Italy for 1951* (May 31st, 1952) p. 138. The quantity indices published by the ISTAT in 1952 correspond to calculations made on the basis of the complete data, and have therefore been used in this paper (Table II).

which has been supported by the ample expansion of domestic credit;

(b) the world textile crisis;

(c) import restrictions adopted by other countries;

(d) facilities granted by other countries in favour of exports not matched by similar facilities in Italy;

(e) the deterioration of the « terms of trade ».

We shall comment on each of these in turn.

### The Liberalisation Policy.

4. — Towards the end of October, 1951, the Italian Government adopted a series of measures which gave a more liberal tone to Italian commercial policy:

First, it abrogated the necessity of obtaining import licences for almost all goods coming from the EPU area (*i.e.* affecting more than 98 per cent of Italian imports from that area in the period January 1st-July 31, 1951) (5).

Secondly, it granted, through the Italian Exchange Control Office (UIC), loans at the reduced interest rate of 2.5 per cent, for a total of 60 million EPU units, for the financing of imports from EPU countries (6). These advances (made by the banks under the supervision of the UIC) had to be, and were in fact reimbursed by April 30th, 1952. But immediately afterwards a second *ceiling* of 40 million EPU units, repayable on or before October 31st was accorded. These special short-term credits, because of the low interest rates (about 4 per cent, inclusive of the commission charged by the banks) were taken up even for imports of goods for which the internal

(5) D.P. I.XI.1951, Circular of the Ministry Foreign Trade, No. 22565, 31.XI.1951. Before October, 1951 « autonomous » provisions (*i.e.* provisions not carrying any binding international obligation and hence subject to revocation at any time) had already extended the liberalisation measures *vis-à-vis* the countries participating in the OEEC and their dependent overseas territories (excluding that is to say the independent countries of the sterling area and the assimilated territories for which other provisions were in force) to the following products: fats (Aug. 23rd, 1950); hides and skins, and paper (Jan. 31st and Feb. 8th, 1951); livestock, meat and fish (Sept. 6th, 1951).

(6) *Informazioni Commercio Estero*, ICE, 5.XI.1951.

market showed signs of overstocking or even of depression (wool, cotton, hides and skins, etc.). They were additional to the medium-term credit facilities provided under certain special legislative measures of 1950 for financing imports of machines and equipment, both from the sterling area (up to an amount of £ 50 million) and from other areas (up to an amount of 30 milliard lire). These medium-term credit facilities — along with the ERP loans — exerted their effects on the volume of imports especially from 1951 onwards (7).

Thirdly, the Government widened the limits within which transfers of currency to EPU countries might be made for purposes of travel, medical treatment, etc. (8).

Fourthly, the Government introduced various measures in order to encourage purchases from countries with which Italy had increasing credit balances (9). For some goods the importers from such countries were automatically accorded the possibility of making pur-

(7) The imports of equipment, ships and aeroplanes financed by the special loans in sterling at 5 per cent (including the bank commission) increased from 5 to 36 milliard lire between 1951 and 1952 (and those financed by ERP loans from 29 to 41 milliards).

(8) UIC note, No. 127600, 31.X.1951.

(9) Thus, with respect to Argentina and Brazil, the so-called « coupling » system (*sistema degli abbinamenti*) was introduced, according to which exports from Italy had to be combined with concomitant imports for like amounts in the case of the Argentine, or for larger amounts (30 per cent larger) in the case of Brazil. This system had a certain effect. The credit balance in Italy's clearing account with Brazil fell from a peak of 21.9 million dollars (reached on October 20th, 1952) to 16.9 million (on March 31st, 1953). In the case of the Argentine, the « coupled » imports into Italy are supposed in principle to precede the exports; and since the Argentinian authorities do not easily grant import permits for « ordinary » Italian goods, the lag tends to be accentuated.

Italy's trade relations with Argentina are, however, dominated by the large credit granted by Italy under the agreement of June, 1952, an agreement which constitutes an exceptional element in Italian commercial policy.

Another measure worth mentioning, even if it was not of much practical importance, is the authorisation given in the summer of 1952 to Italian importers to take advantage of the arbitrage operations for which permission was given by the British authorities to the London market in the summer of 1952 for the acquisition against sterling payment of goods coming from the dollar area. The Italian facilities in this regard were of brief duration (August 3rd to September 7th, 1952) as were the British provisions on which they depended. The abrogation of these provisions was, as is well known, induced by the enormous demands for utilisation of sterling balances on the part of countries which held such balances. The suspension of the corresponding Italian facilities depended also on the substantial price increases due to the costs of the intermediaries.

chases in the dollar area for proportionate amounts (10).

At the beginning of 1952 the degree of liberalisation of imports by Italy from the EPU area had already reached 98 per cent of the total, as compared to an average of 69 per cent for all the other member countries; and at the end of that year the degree of

TABLE III

IMPORT LIBERALISATION BY O.E.E.C. COUNTRIES  
(as percentage of total imports)

Countries	August 1951	January 1952	January 1953
Austria . . . . .	nil	nil	nil
Belgium-Luxemburg . . . . .	75	75	90
Denmark . . . . .	63	65	75
France . . . . .	76	suspended	suspended
Western Germany . . . . .	suspended	75	81
Greece . . . . .	nil	nil	nil
Ireland . . . . .	75	75	75
Iceland . . . . .	41	41	?
Italy . . . . .	76	98	99
Norway . . . . .	51	75 (1)	75
Netherlands . . . . .	61 (2)	75	75
Portugal . . . . .	83	84	85
United Kingdom . . . . .	90	46	46
Sweden . . . . .	75	75	91
Switzerland . . . . .	75	75	92
Turkey . . . . .	63	63	63

(1) As from May 1st 1952.

(2) As from September 1st 1951.

liberalisation had risen to 99 per cent (11) as against an average of 77 per cent for the other countries (see Table III).

(10) Provisions of this kind were introduced for hides and skins, and for wool. The importers of raw hides and skins from EPU countries and from « clearing countries » (the provision being aimed especially, however, at the sterling area) were authorised to import hides and skins against payment in dollars to the extent of 10 per cent. From January 14th, 1953 the percentage was raised to 25, and the concession was extended to goods coming from Uruguay (which is not a « clearing country »). In order to stimulate imports of Argentinian wool (an important item among the quotas accorded by Italy) Italian importers were conceded (in December, 1952) the right to acquire wool against dollar payments either from Argentina herself or from other South American countries in the proportion of 2 actual dollars for every 3 dollars in the Argentinian clearing account. In 1953 the ratio was raised to 1 free dollar for every 1 dollar in the clearing account.

(11) Automobiles, motor-cycles, printing machines, milk, wines, wheat, penicillina, and cork are excluded from the liberalisation measures.

In this policy, courageously adopted in spite of doubts and objections — Italy took a unique position, which responded to the needs of her own economic situation. Three factors were especially important.

The *first* was the need for a high degree, on a permanent basis, of freedom of trade. As is well known, the structure of Italy's foreign trade is such as to make it exceptionally vulnerable; this is due especially to the nature of her exports, which include non-essential goods and services, which are always the first to be hit by a trade depression and by restrictive or discriminatory measures. Among these items are fresh fruit and vegetables, certain textile products, the tourist trade, etc. Italy is therefore particularly interested in the establishment of an international « climate » which is liberal and allows for a steady expansion of trade.

The *second* factor was the desire to correct the tendency towards a continued increase in her credit balances with the EPU. Such a large credit position with EPU countries not only threatened to disturb the proper functioning of the Union, but also put Italy in the absurd position of financing the trade of countries economically stronger than herself and of exposing herself to heavy exchange risks.

During 1951 situation had become particularly difficult. Whereas on January 1st that year Italy had a debit position with the EPU amounting to 30.8 million dollars, on December 31st she had a credit position of 237.6 million. During 1952, on the other hand, 63 million dollars of this credit were absorbed so that by the end of that year her credit position had fallen to 174.4 million. This reduction is due in large part to the development in her trading position with the United Kingdom and with Germany. Her trade with France, on the other hand, still shows a considerable surplus. During the first three months of 1953 Italy had a deficit in her account with the EPU amounting to 95.5 million dollars; her outstanding credit position had thus been reduced by the end of March to 79.1 million dollars.

The *third* factor was the expansion of domestic investment and consumption. Full liberalisation of her trade and the utilisation of the EPU credits were counted upon to

allow Italy to increase the supplies of goods on the domestic market during a period in which rearmament expenditures, the execution of a large scale investment and modernisation (12) programme, and increased consumers' expenditures might otherwise give rise to inflationary pressures.

We thus see that the liberalisation policy is not merely a series of disconnected measures; it is an integral part of Italian policy which looks towards European economic unity, the re-establishment of equilibrium in Italy's trading position with the EPU, and the plans for domestic economic expansion especially in the « depressed areas » of Southern Italy. As much the liberalisation policy corresponds to Italian needs, and a revision of that policy would become necessary only if the other countries were to persist in restrictive policies. At the moment the relaxing of import restrictions by certain countries gives hope that it will be possible for Italy to persevere along the path on which she has started.

What have been the consequences of the measures taken for the « liberalisation » of inter-European trade?

We cannot give an evaluation which pretends to « quantitative » accuracy: owing to the multiplicity of other causes which are operating simultaneously, either in the same or in the opposite direction, any such evaluation can be no more than a very rough indication. Indeed, along with the abrogation of the necessity of obtaining import licences for goods coming from EPU countries, two other factors have helped to encourage imports:

The *first* is a credit policy which, quite apart from the special loans mentioned above, was particularly liberal in 1952 (13).

(12) Particular reference should be made to the two basic laws relating to investments, the Act of 10.VIII.1950, No. 644 appropriating 1,000 milliard lire for the *Cassa per il Mezzogiorno* to be allocated over a period of 10 years, and the Act on Civil Investments of 27.VII.1952, No. 949, appropriating another 557.5 milliard, also to be spent over a period of 10 years, to which are to be added the appropriations for workmen's dwellings, for mountain lands, for enlarging and modernising the plants of government and private undertakings, etc.

(13) The official directives calling for restraint, issued after the outbreak of the war in Korea, have been tacitly dropped; and the banks, under the stimulus of keen competition, have shown much more willingness to lend; between December 31st, 1951 and December 31st, 1952 they increased the volume of

The *second* is the moderation shown by Italy in her tariff policy. Indeed, the abolition of quantitative restrictions would have had less influence on imports from the EPU countries if the high *ad valorem* duties of the general tariff of 1950 had been applied. Those duties have, however, come into force only for about 200 items among the approximately 5,500 covered by the general tariff; on all the others either the « bound duties » as agreed on by GATT (and also by the special agreement with Switzerland) are applied, or still lower duties are charged, the latter being fixed by the Government under the special powers with which it was vested up to the end of 1954, and which were aimed at allowing readjustments and counteracting rises in prices. Moreover, the duties in force were lowered by a further 10 per cent by a Decree of November 1st, 1951 (No. 1125) for almost all products. For certain food products the duties were even temporarily suspended. As a result of these alleviations the present Italian customs duties are — taken as a whole — among the most moderate in Europe.

A recent study made by the Ministry of Foreign Trade shows, in fact, that imports from the EPU area of goods liberalised by *independent action* under the provision of November 1st, 1951, *i.e.* between 76 and 98 per cent of the total, increased by 43 milliard lire (or by 45 per cent), in the first ten months of 1952 as compared with the corresponding period in 1951, and that if the goods liberalised prior to November, 1951 are included the increase is 50 milliards. This increase accounts for more than 50 per cent of the total increase of imports during the relevant period. The increase affected mainly raw materials and capital goods, and in both sectors it led to reactions on the home market, in some instances creating difficulties for local producers. This has been the case more especially for meat, and for certain branches of the mechan-

their loans and credits by 21-25 per cent (depending on whether we use the statistics referring to the type of activity financed, or those referring to the type of credit extended). This credit expansion is one of the striking features of the Italian economic situation in 1952, and causes some surprise when it is compared with the only moderate expansion of production.

TABLE IV  
ITALY'S IMPORTS AND EXPORTS BY MONETARY AND GEOGRAPHICAL AREAS: 1950 - 1951 - 1952 (\*)

	I m p o r t s						E x p o r t s						S u r p l u s ( + ) o r D e f i c i t ( - )		
	1 9 5 0		1 9 5 1		1 9 5 2		1 9 5 0		1 9 5 1		1 9 5 2		1 9 5 0	1 9 5 1	1 9 5 2
	Milliards of lire	Per cent	Milliards of lire	Per cent	Milliards of lire	Per cent	Milliards of lire	Per cent	Milliards of lire	Per cent	Milliards of lire	Per cent	Milliards of lire	Per cent	Milliards of lire
E.P.U. Countries (a) . . . . .	477.1	53.7	733.5	55.4	850.6	58.8	526.6	70.7	753.6	74.1	595.2	68.8	+ 49.5	+ 20.1	- 255.4
of which:															
Sterling Area (b) . . . . .	(194.2)	(21.6)	(343.7)	(25.9)	369.6	(25.5)	(217.3)	(29.7)	(348.3)	(34.2)	(233.5)	(27.7)	+ 23.1	+ 9.1	(- 121.1)
America Countries with which Italy has:															
— Bilateral agreements (c) . . . . .	68.4	7.6	83.7	6.3	40.2	2.7	51.5	6.9	53.6	5.2	31.8	3.6	- 16.9	- 29.4	- 8.4
— Dollar area (d) . . . . .	245.3	27.3	347.6	26.3	378.9	26.2	83.3	11.1	111.7	10.9	124.8	14.4	- 162.7	- 236.6	- 254.1
Eastern Europe (e) . . . . .	48.4	5.4	62.5	4.7	79.0	5.4	55.7	7.3	66.6	6.6	58.7	6.7	+ 6.6	+ 4.1	- 21.7
Other Countries (f) . . . . .	58.2	6.5	96.8	7.3	97.1	6.9	29.8	4.7	32.9	3.2	54.4	6.5	- 28.4	- 63.9	- 42.7
Total . . . . .	897.4	100.0	1,323.4	100.0	1,445.8	100.0	746.2	100.0	1,017.7	100.0	864.2	100.0	- 151.2	- 305.7	- 581.6

(\*) The countries are according to the classification adopted by the O.E.E.C.

(a) Austria; Belgium-Luxembourg and Belgian Congo; Denmark; France and Sear; French West Africa; French South Africa; Algeria; French Morocco; French Somaliland; Tunisia; French Guiana; French Dependencies in North and Central America; Indo-China; other French Dependencies in Asia; French Dependencies in Oceania; Germany (Federal Republic); United Kingdom (Ireland); Malta; Gibraltar; Aden; Burma; British Borneo; Ceylon; Cyprus; Jordan; Hong-Kong; Iraq; British Malaya; Pakistan; India; other Arabian countries; British West Africa; British East Africa; British South Africa; Libya; South Africa; Zanzibar; British Dependencies in North and Central America; British Dependencies in South America; Australia; New Zealand; British Dependencies in Oceania; Australian Dependencies in Oceania; Egypt; Ethiopia; Anglo-Egyptian Sudan; Thailand; Eritrea; Afghanistan; Greece; Iceland; Norway; Netherlands and Surinam; Dutch Dependencies in Central America; Indonesia; Portugal and Portuguese West Africa; Portuguese South Africa; Portuguese Dependencies in Asia; Sweden; Switzerland; Turkey.

(b) For list of countries in the sterling area, see bracket following the United Kingdom in footnote (a).

(c) Argentina; Brazil; Ecuador.

(d) United States; Porto Rico; U.S. Dependencies in North and Central America; Canada; Costa Rica; Cuba; Guatemala; Haiti; Honduras (Republic); Mexico; Nicaragua; Salvador; Panama; San Domingo; Bolivia; Chile; Colombia; Peru; Uruguay; Paraguay; Venezuela.

(e) Bulgaria; Hungary; Poland; Rumania; Czechoslovakia; U.S.S.R.; Germany (Federal Republic); Albania; Finland; Yugoslavia.

(f) Spain and Spanish West Africa; Spanish Morocco; Somaliland; Liberia; Saudi Arabia; Bhutan and Nepal; China; Korea; Philippines; Japan; Iran; Israel; Lebanon; Mongolia; Syria; Yemen; U.S.A. Dependencies in Oceania.

ical engineering trades which are already engaged in a laborious process of readjustment.

The results of the liberalisation policy are also reflected in the movement of imports classified by monetary areas and countries of origin (see Table IV).

The growth of imports from the EPU area is much more marked than the growth of imports from other monetary areas. In other words, the distribution of Italian purchases abroad was further modified in 1952 in favour of the EPU countries, and more especially of their metropolitan areas. Thus, of total Italian imports in 1952, 35.8 per cent (as against 31.2 per cent in 1951) came from the metropolitan areas of the EPU countries, 8.4 per cent (as against 7.8 per cent in 1951) from the dependent territories of the EPU countries, and 56.8 per cent (as against 61 per cent in 1951) from countries not members of the EPU (see Table IV).

#### The Textile Crisis.

5. — *The shrinkage of Italian exports seems to depend almost exclusively on the reduced sales abroad of the products of the textile in-*

The ratio of textile exports to total exports from Italy has therefore fallen. In 1951 they amounted to 385 milliard lire and were equivalent to 37 per cent of total Italian exports; in 1952 they fell to 207 milliards, accounting for only 24 per cent of the total value of exports (see Table V). Cotton and synthetic fibre products accounted for 56 per cent of the total reduction, and woollen products for 48 per cent.

Since, in recent years, Italian exports of textiles went chiefly to European countries, and more especially to France and the United Kingdom, the decline must be ascribed in large measure to the restrictions which the Western European countries placed on imports, partly in response to the fall which took place in their own exports to overseas markets. In fact, *Italy's textile export to France and the United Kingdom fell from 1951 to 1952, by 36 and 33 milliard lire respectively.*

Imports of textiles amounted in 1951 to 313 milliard lire, and in 1952 to 299 milliard. Thus, whereas in 1951 exports exceeded imports by 72 milliard lire, in 1952 imports exceeded exports by 92 milliard (see Table V).

ITALY'S FOREIGN TRADE BY MAIN COMMODITY GROUPS

TABLE V

	Exports						Imports					
	Milliards of lire			Per cent			Milliards of lire			Per cent		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
Foodstuffs . . . . .	194	205	197	26	20	23	199	280	268	21	21	19
Textiles . . . . .	262	385	207	35	37	24	205	313	299	22	23	21
Metallurgical and mechanical engineering products . . . . .	170	227	245	23	22	28	195	242	343	21	18	24
Fuel . . . . .	18	29	60	2	3	7	169	271	281	19	20	19
Chemicals . . . . .	23	53	51	3	5	6	44	54	57	5	4	4
Others . . . . .	86	130	104	11	13	12	114	194	198	10	14	13
Total . . . . .	753	1,029	864	100	100	100	926	1,354	1,446	100	100	100

Source: Central Institute of Statistics.

*dustries, which declined in 1952 by no less than 178 milliard lire, thus exceeding the fall that occurred in exports as whole (153.7 milliard lire) (14).*

(14) This difference was offset by the heavier exports of other goods especially chemical products and petroleum derivatives (see section 9 and Table XV).

Italy was consequently in a very difficult position in 1952. She could not pass on to her imports — by reducing them correspondingly — the decline in demand for her exports, as the United Kingdom succeeded in doing.

Although the textile industry, which in the early stage of industrial development in

Italy, was the basic one, has ceded first place in the last thirty years to the mechanical engineering industry, it still employs (1950-1951) about 15 per cent of industrial workers. As a net exporter of textile products, Italy was ahead of the other most important textile exporting countries of Europe both in 1938, when she contributed 25 per cent of the total exports, and in 1951 when she contributed 37 per cent (see Table VI).

TABLE VI

NET TEXTILE EXPORTS AS PERCENTAGE OF TOTAL EXPORTS (1)

	1938	1951
Belgium . . . . .	7	11
France . . . . .	13	13
Western Germany . . . . .	4	1
Italy . . . . .	25	37
United Kingdom . . . . .	17	15

(1) Exports less imports of manufactured articles.

The present textile crisis is therefore especially serious for Italy, and points to the need for a more varied and more intense industrial

development which would render her economy less vulnerable to fluctuations in the textile sector.

#### Quantitative Restrictions on Imports.

6. — In 1951 and 1952 the shrinkage of the foreign exchange reserves of the countries belonging to the sterling area (the United Kingdom, Australia, etc.) and of France induced those countries to impose quantitative restrictions on imports, which seriously hit Italy's export possibilities.

The reduction of Italian textile exports to the United Kingdom and France (see section 5) offers a clear example of the way in which the restrictions — by aggravating the world textile crisis — have affected the volume of Italian sales.

On the other hand, restrictions introduced by Western Germany, which were serious in 1950-51, were considerably mitigated in 1952, and in that year the West German market was the most important for Italian goods. The amount taken by Western Germany rose from 80.2 milliard lire in 1951 to 87.6 milliard lire in 1952, and Western Germany's share in the

ITALY'S IMPORTS AND EXPORTS BY PRINCIPAL COUNTRIES

TABLE VII

Countries (a)	Imports					Increase (+) or decrease (-) 1951 to 1952 Percent	Exports					Increase (+) or decrease (-) 1951 to 1952 Percent
	1952		1951		Increase (+) or decrease (-) 1951 to 1952 Percent		1952		1951		Increase (+) or decrease (-) 1951 to 1952 Percent	
	Milliards of lire	Percent of total imports	Milliards of lire	Percent of total imports			Milliards of lire	Percent of total exports	Milliards of lire	Percent of total exports		
United States . . . . .	303.4	20.9	284.5	21.0	+ 6.6	87.6	10.1	80.2	7.7	+ 9.2		
Germany . . . . .	133.4	9.2	99.9	7.3	+ 33.5	87.0	10.0	70.5	6.8	+ 23.4		
United Kingdom . . . . .	79.6	5.5	50.0	3.6	+ 59.2	71.3	8.2	138.5	13.4	- 48.6		
Saudi-Arabia . . . . .	59.3	4.1	53.3	3.9	+ 11.2	56.6	6.5	92.6	8.9	- 38.9		
Australia . . . . .	59.1	4.0	76.9	5.6	- 23.2	56.2	6.4	57.7	5.6	- 2.6		
France . . . . .	57.5	3.9	58.5	4.3	- 1.8	27.9	3.2	20.7	2.0	+ 34.7		
Switzerland . . . . .	54.2	3.7	42.0	3.1	+ 29.0	26.3	3.0	20.2	1.9	+ 30.1		
Austria . . . . .	41.9	2.8	32.1	2.3	+ 30.5	24.0	2.7	21.1	2.0	+ 13.7		
Belgium-Luxemb. . . . .	41.8	2.8	34.0	2.5	+ 22.9	21.5	2.4	24.2	2.3	- 11.2		
Iraq . . . . .	34.5	2.3	12.9	0.9	+ 167.4	20.4	2.4	26.8	2.6	- 23.9		
Other Arabian Countries . . . . .	31.9	2.2	18.1	1.3	+ 76.2	19.9	2.3	25.3	2.4	- 21.4		
Canada . . . . .	30.3	2.0	30.4	2.2	- 0.4	18.3	2.1	18.8	1.8	- 2.7		
British Malaya . . . . .	28.8	1.9	44.0	3.2	- 34.6	18.1	2.0	25.4	2.4	- 28.8		
Egypt . . . . .	28.4	1.9	31.9	2.3	- 11.0	15.1	1.7	20.5	1.9	- 26.4		
Sweden . . . . .	25.8	1.7	31.1	2.2	- 17.1	14.3	1.6	18.7	1.8	- 23.6		

total rose from 7.7 to 10 per cent (see Table VII) (15).

The figures given in Table IV show that the most marked reductions in Italian exports — from 1951 to 1952 — concern chiefly those going to Western European markets and to the sterling area. While Italian imports from the sterling area increased (from 343.7 milliard lire in 1951 to 369.6 milliard in 1952) our exports towards those markets fell from 348.3 to 233.5 milliards. Thus, the surplus (of 4.6 milliard lire) was turned into a deficit (of 136.1 milliard). The decline (by 114.8 milliard lire) accounts for about 74.7 per cent of the total decline (of 153.7 milliard lire) in Italian exports over that period.

Looking at the figures for Italian exports to individual countries in the sterling area, we may note the shrinkage that occurred from 1951 to 1952 in exports to the United Kingdom (from 138.5 to 71.3 milliard lire, a reduction of 48.6 per cent, see Table VII), to Australia (from 35.4 to 10.1 milliard lire), and to New Zealand (from 1.5 to 0.78 milliard lire).

Exports to the other EPU countries outside the sterling area fell from 404.3 to 361.7 milliard lire (see Table IV). The most serious reduction, largely due to the quantitative restrictions on imports, occurred in exports to France (which fell from 92.6 to 56.6 milliard lire). The proportion of total Italian exports taken by France thus declined from 8.9 per cent in 1951 to 6.5 per cent in 1952.

#### Measures for Encouraging Exports.

7. — The measures taken by various countries to increase their own exports are capable of adversely affecting the Italian balance of trade in two ways, and should therefore be men-

(15) The United Kingdom restrictions were originally introduced in November, 1951, and they were intensified in January, 1952, after the Conference of the Commonwealth Finance Ministers. As a result the « degree of liberalisation » applied by the United Kingdom, which had risen to 90 per cent in the previous period, fell to 61 per cent in November and to 46 per cent in the following February, and remained at that level throughout 1952 (see Table III).

The French restrictions date from February, 1952, when all the liberalisation measures taken previously were abrogated and import licences and quotas on all goods coming from OEEC countries were reintroduced.

tioned among the factors that have aggravated the Italian deficit. On the one hand, they help to intensify foreign competition on the Italian market; on the other, they tend to make more difficult the position of Italian exporters in foreign markets.

In considering the position of Italian exporters it should once again be emphasized that in recent years they found themselves at a clear disadvantage on the international market. During this period the Italian Government has taken almost no part in the race to encourage exports through tax alleviation, medium-term credits, loans at low rates of interest, export credit guarantees, hard currency bonuses, and the manipulation of exchange rates. Therefore the competitive power of our exporters has been weak compared with that of exporters in other countries (16).

A few summary remarks will be sufficient to illustrate Italy's positions in this regard.

1) The right of Italian exporters to retain 50 per cent of their receipts in hard currency and to sell it, within certain limits and under certain conditions, on the free market (retention quota) has lost all importance as is evidenced by the smallness of the disparity which now remains between the free and official exchange rates (17). Factors contributing to this result are the liberalisation of imports from European countries, which has had the effect of diminishing the importance of dollar accounts, accompanied by the maintenance of import licensing for goods which are obtainable at lower prices on dollar markets.

(16) Not only the Government's hesitancy with regard to the problems of export credits and export credit insurance, but also the inadequacy of its commercial services abroad has been a factor of some importance. In addition the producers — even aside from the complex problem of production costs — are generally still far ahead of their foreign competitors in the field of commercial efficiency, market research, responsiveness to buyers' demands and tastes, standardisation, and so on. Moreover, the coordination of public and private action, which in other countries contributes to the success of export activities, is lacking in Italy.

(17) The divergence between the official and the black market rates for the dollar has declined continually since 1951. The rates have moved as follows:

	Official rate	Black market rate
1951 (annual average) . . . . .	624.9	679
1952 (annual average) . . . . .	624.92	654
1953 (average for 1st quarter) . . . . .	624.91	635

2) At the same time the advantages enjoyed by Italian exporters as a result of the undervaluation of the lira with respect to certain currencies — sterling and the French franc — have been greatly reduced or have even disappeared (18). At the same time the effectiveness of the premium has been more or less neutralised as the result not only of price movements but also of quantitative restrictions, especially in the case of France (19).

3) In Italy there are very few measures in favour of exports and those that exist have been introduced only recently; that scope is in no way comparable to the systems in force in other European countries, especially in France and Germany.

Two types of measure are at present in force:

(a) A rebate of excise duties is granted on the following goods in so far as they are exported: yarns, natural textile fibres, mineral oils, sugar, alcohol, salt and beer. Given the special nature of the excise duty, the rebate is an equalising measure vis-à-vis other countries (20).

(b) A rebate of the general sales tax (IGE) (21) has been granted since October 1952 in respect of certain goods. Originally it applied only to a few goods mostly con-

(18) In January, 1952, the divergence between the « official » rates (178.5 for the French franc and 1,749.72 for the pound sterling) and the « black market » rates (159 and 1,604) amounted to 12 per cent and 9 per cent respectively, or that is levels such as to stimulate exports to the sterling and French franc areas and to discourage imports from those areas. Even exports to the dollar area were affected by this factor; they tended to take place through « triangular » deals via France and Great Britain, thus increasing Italy's surplus with the EPU, and increasing her dollar gap. But as early as June, 1952, with the narrowing of the difference between the « official » and « black market » rates, the premium was reduced to 8 per cent for the pound sterling (free exchange rate 1,635).

(19) In March, 1953, the divergence between the rates for the pound sterling had fallen to 5 per cent (free rate 1,673) while the divergence between the rates for the French franc had risen to 13 per cent (free rate 158).

(20) Under the tax systems of foreign countries also either the excise duty is not levied on that of the output of a good that is intended for export, or it is refunded.

(21) The general sales tax is levied on every transaction that gives rise to a taxable receipt; hence it is levied each time a good is transferred or a service is rendered. The normal rate (which has remained unchanged since January 1st, 1947) is 3 per cent; but there are also special rates for many groups of products.

nected with MSA purchases, and was limited exclusively to sales against convertible currencies (U.S. and Canadian dollars, Swiss francs). In the spring of 1953 the rebate will be extended to about fifty important mechanical engineering products with respect to all the monetary areas (22).

The consequences of the present Italian sales tax are, moreover, complicated by its cumulative character. The fact that it is levied every time a product changes hands on its way from the raw material stage to that of consumption, means that it ends by constituting a form of protection in reverse, *i.e.* a kind of tax on exports, a tax formed by the compounding of the successive levies. Thus, for example, studies made in the mechanical engineering industries indicate that « the percentage added to total manufacturing cost by the IGE varies from about two per cent to as high as eight or nine per cent » and that « in the establishments using sub-contracting extensively, the IGE sometimes compounds to 13 or 14 per cent of the costs of materials purchased » (23).

(22) Under a Ministerial Decree of December 26th, 1952 (No. 8387), with retroactive effect to March 1st, 1952, the sales tax is refunded on exports to dollar territories of the following articles:

articles	rebates
hats and straw products	3½% of the sales price
asbestos-cement products	90 lire per 100 kgs.
radar-equipment	4% of sales price
tractors and motor vehicles	5% of sales price
warships	4% of sales price
accordions	400 lire
munitions	1½%-2% of sales price

A further Ministerial decree (31.III.1953) provides for rebates on certain other articles concerning the MSA only. For those customs list items that are produced by the mechanical engineering industries and which shortly be eligible for the rebate (machine tools, sewing machines, locomotives and railway rolling stock, turbines and generators, tow trucks, etc.) the rebates will run from a minimum of 2.5 per cent to a maximum of 5.8 per cent.

(23) See « Economic and Industrial Problems of the Italian Mechanical Industries », CISIM (*Commissione Indagini e Studi sull'Industria Meccanica*), Rome, 1952, pp. 161-2.

The American experts who took part in the enquiry on which the above study is based proposed that the levy of the sales tax on each successive transaction should be dropped, and the general tax on sales to the ultimate consumer or on retail sales of goods should be raised to 6 per cent. In their opinion such a rate should not cause alarm as France has a similar tax at the rate of nearly 17 per cent, and in Great Britain some articles are taxed at rates exceeding 50 per cent (in both countries exports are, of course, exempt).

Nor is this all: the system of cumulating the sales taxes over all the different stages increases the difficulty of entering markets in countries where, as in the United States, duties are levied *ad valorem* on the price at which the goods are offered for sale on the home market of the exporting country. From this point of view, exporters from countries, such as the United Kingdom, Sweden, which levy a sales tax only once at the time when the goods pass from the wholesaler to the retailer are in a more advantageous position.

4) Italy has no « equalisation taxes » such as have been introduced elsewhere with the object of restoring competitive conditions with those countries which refund indirect taxes at the time when the goods are exported. And nothing has been done to facilitate, through the granting of subsidies, the purchase of key raw materials under special emergency conditions (as was done, for instance, in France and in the United Kingdom after the outbreak of the Korean war for certain goods, in order to save the processing industries from having to bear the full burden of the price increases in the international market).

5) As regards *special* bank credits for financing exports, nothing of a systematic nature has been done in Italy along the lines of the measures adopted in France and Germany especially for medium and long term credits (24). The problem that arises here is one which affects more especially exports of machinery built to order, and of plant and equipment in general, and is of special importance for the revival and redirection of exports to meet the new demands of world markets and of the under-developed countries. But more than one obstacle stands in the way of a positive solution to this problem:

(24) The only facility that may be mentioned in this connection is the concession to the banks (acting as agents) of the possibility of obtaining dollar loans at a low rate of interest for financing Italian exporters who wish to constitute and replenish stocks of goods in the U.S. with the object of stimulating sales in that market. The amount that may be obtained in this way is limited to 50 per cent of the loan granted by the bank and to a sum not exceeding 50 per cent of the value of the goods deposited in the U.S. The remaining 50 per cent has to be covered by the bank out of its own foreign exchange balances. In practice this could not and does not take place.

(a) The strict rediscount policy applied by the Italian monetary authorities with the object of avoiding inflation. Unless the Italian banks have the possibility of automatic rediscount they will obviously be unwilling to expand their longer-term loans.

(b) The absence, on which we shall comment below, of modern systems for the insurance of export credits. This makes the risk of immobilisation and of loss correspondingly greater and more difficult for the banks to assume.

(c) The scarcity of capital on the home market. The available supply is already insufficient to meet the needs of the expansion and modernisation of the domestic productive equipment.

Indeed, the only medium-term credits at present granted are those concerning exports to the Argentine which are the result of a direct agreement between the Argentine Government and the Italian Government, which, under the Convention of June, 1952, has given substantial and, in view of the risks entailed, generous aid (25).

The other credits opened through of the clearing accounts are contained within the usual « functional » limits except for the exceptionally heavy balance accumulated in the clearing account with Brazil (26).

6) Italy has none of those systems for insurance of export credits against special risks that are so common abroad. A measure in course of preparation (27) is still pending. Moreover, in view of its very limited scope

(25) The Italo-Argentinian agreement of June 25th, 1952, provides facilities of two kinds: (a) a higher margin of credit than under the previous agreement (100 instead of 80 million dollars) for the « ordinary » account; (b) a unilateral credit of 75 million dollars granted by Italy to Argentina for capital goods, especially mechanical engineering products.

(26) In 1952 the clearing account between Italy and Brazil showed a steady surplus in favour of Italy and led to the total utilisation of the credit ceiling (5 million Italo-Brazilian account dollars) granted to Brazil. In October, 1952, however, the « crisis » in the clearing account obliged the Italian Government — which had previously expanded the margin of credit — to adopt control measures such as the reintroduction of the licence system for exports to Brazil and the introduction of a special system of « coupling » (see footnote 9 on p. 3 above).

(27) *Disegni di Legge e Relazioni* presented to the Senate (No. 2967, 25.III.1953).

(the Government would give guarantees against exceptional risks, in return for a premium of 1-3 per cent of the amount guaranteed, for a total volume of credits not exceeding 10 milliard lire, or, that is, not much more than 16 million dollars, per annum) in comparison with the measures taken in other countries (e.g. with £ 900 millions of the Export Credit Guarantees Department in Great Britain and the DM 2,400 millions of the state insurance system in Germany).

7) Neither the « drawback » nor the « temporary import » procedure can be considered « privileges ». They are, merely measures aimed at equalising the conditions of production for certain domestic manufacturing industries vis-à-vis foreign competitors. In any case, the « drawback » operates at present only for cotton goods. The « temporary import » procedure, under which imports of raw materials and semi-finished products which are intended for re-export after processing are exempt from the beginning from the payment of customs duties, is limited to certain processing activities carried out for account of others (particularly in textiles), and is organised with bureaucratic controls that diminish its effectiveness.

While there is no doubt that the measures adopted in foreign countries to facilitate exports reacted unfavourably on the Italian balance of trade, it is impossible to ascertain the measure in which they contributed to the increase in the deficit. It is not only prices that have to be considered. The volume of trade depends also on other factors such as the quality of the products and the size and elasticity of demand and of supply, etc., and as a result of the operation of these factors, the various measures adopted may not — in particular instances — have succeeded in forcing a higher level of exports.

Even in those cases where price differences are the determining factor, it is hard to separate the impact on competitive prices of special facilities (taxes, credits, or insurance) from that of other cost factors. It is clear, however, that in numerous markets, the facilities to

which we have referred have proven decisive in ousting a number of Italian products; and in any case they aggravate the already existing inferiority of our competitive position, which is due to higher production costs, a lower degree of adaptation to the requirements of local buyers, and a weaker commercial organisation.

In considering whether, and to what extent, Italy should herself develop a programme of special facilities for exports, account needs to be taken of certain limitations, in addition to those already mentioned with respect to the granting of export credits.

*First*, it will be useful to ascertain to what extent tax rebates, or premiums, or guarantees, or credit facilities can really help the recovery of our exports, and to what extent they may merely lead to an increase in the quantities exported (the receipts from abroad remaining the same) or to a redistribution of the national income in favour of Italian exporters. It is necessary for this purpose to make a study of markets and economic sectors, both domestic and foreign, and to choose certain selective criteria.

*Secondly*, for some products, even equalising measures may be insufficient to re-establish competitive opportunities, because of the higher internal production costs; or they may be irrelevant because of the inelasticity of foreign demand. Further complications are introduced by problems of productivity and of the adaptation of the production structure to the changing requirements of foreign markets — problems which involve responsibilities not only of private firms, but also of fiscal and financial authorities.

*Thirdly*, as a general rule, Italy, an economically weak country with budget difficulties and with high costs of production, is bound to be opposed to a relentless war of fiscal rebates, special credits, insurance facilities, and so on, which entail delicate financial and redistribution problems, and, moreover, risk cancelling each other out to the benefit of certain groups of importing countries. It is for this reason that Italy has been up to now

rather slow — in fact almost inactive — in responding to the demands of exporters, and has not considered the possibility of participating in the « export-drive » except as a defence measure against the practices of other countries.

#### The Terms of Trade.

8. — The extent to which the deterioration of the terms of trade (by about 40 per cent from 1951 to 1952; see Table VIII) helped to aggravate the deficit in Italy's balance of trade was almost negligible.

TABLE VIII  
TERMS OF TRADE  
(Monthly average 1948=100)

Years	General Index	Agriculture	Industry
1951	98.3	95.2	100.5
1952	97.9	107.9	96.3

Source: « Statistica del Commercio con l'Estero », December 1952.

According to the figures reproduced in Table VIII, the general index of the terms of trade deteriorated slightly in 1952 (to 97.9 as against 98.3 in 1951), because of a small decline in import prices relative to export prices. This movement was the result of a noticeable improvement in the agricultural index (from 95.2 to 107.9), which was more than neutralised by the deterioration in the industrial index.

In order to obtain a rough measure of the effects of this deterioration, we have made a calculation of what the values of Italy's foreign trade would have been in 1952 had she been able to operate in the world market on the basis of 1951 prices. At 1951 prices, 1952 imports would have cost Italy 30 milliard lire less, whereas export proceeds would have been reduced by 33.3 milliards. The deterioration of the terms of trade from 1951 to 1952 thus increased the Italian commercial deficit by only 5.7 milliard lire.

#### Components of the Trade Deficit by Monetary Areas.

9. — To complete the analysis, Table IX presents some statistics concerning the extent to which trade with the various monetary areas and the most important countries affected the increase in the deficit. The following points emerge from the table:

TABLE IX  
ITALY'S FOREIGN TRADE: SURPLUS (+) OR DEFICIT (—)  
BY MONETARY AREAS AND MAIN COUNTRIES  
(Milliards of lire)

	Surplus (+) or deficit (—) in 1925	Surplus (+) or deficit (—) in 1951	Increase (+) or decrease (—) 1951-1952
<i>E.P.U. Countries . . .</i>	+ 20.1	— 255.4	— 275.5
of which:			
Sterling Area . . .	(+ 9.1)	(— 121.1)	(— 130.2)
United Kingdom . . .	(+ 88.5)	(— 8.3)	(— 96.8)
France . . . . .	(+ 34.1)	(— 0.9)	(— 35.1)
Germany . . . . .	(— 19.7)	(— 45.8)	(— 26.1)
Austria . . . . .	(— 11.1)	(— 17.9)	(— 6.8)
<i>America Countries with which Italy has bilateral agreements . . .</i>	— 29.4	— 8.4	+ 21.0
of which:			
Argentina . . . . .	(— 35.4)	(— 2.2)	(+ 33.2)
<i>Dollar Area . . . . .</i>	— 236.6	— 254.1	— 17.5
of which:			
United States . . . . .	(— 214.7)	(— 216.4)	(— 2.4)
Canada . . . . .	(— 24.4)	(— 24.6)	(— 0.2)
<i>Eastern Europe . . . . .</i>	+ 4.1	— 21.0	— 25.1
of which:			
U.S.S.R. . . . .	(+ 1.0)	(— 8.5)	(— 9.5)
<i>Other Countries . . . . .</i>	— 63.9	— 42.7	+ 21.2
of which:			
Spain . . . . .	(— 1.1)	(+ 3.0)	(+ 4.1)
Japan . . . . .	(+ 0.7)	(+ 6.3)	(— 5.6)
Saudi Arabia . . . . .	(— 51.1)	(— 56.0)	(+ 4.9)
<i>Total . . . . .</i>	— 305.7	— 581.6	— 275.9

(a) The increment in the total deficit from 1951 to 1952 (275.9 milliard lire) was almost equal to the increment in the deficit towards the EPU countries (275.5). These movements clearly reflect the effects of Italy's liberalisation policy, of the imports of capital goods with special financing provisions, of the import restrictions adopted by the United Kingdom and France, and of the measures

adopted by various countries for encouraging their own exports.

(b) The deficit with South American countries with bilateral agreements (Argentina, Brazil, Ecuador) showed a shrinkage of 21 milliard lire.

(c) Trade with Eastern Europe resulted in a rise in the deficit of 25.1 milliard lire.

(d) Only in trade with the « other countries », was there a reduction in the deficit (a reduction which amounted to 21.2 milliard lire). Japan and Saudi Arabia (with which accounts are settled in dollars) contributed, the former to diminish the deficit by 5.6 milliard lire, the latter to augment it by 4.9 milliard lire.

(e) The increase in the deficit with countries in the dollar area which was relatively moderate — 17.5 milliard lire — caused the total deficit with this area to rise to 254.1 milliard lire.

Both imports from and exports to the dollar area rose. The increase in imports (from 347.6 to 378.9 milliard lire) was greater than the rise in exports (from 111 to 124.8 milliard lire), but the latter merits special emphasis not only in view of the sharp decline in the total of our exports, but also because Italy succeeded in considerably augmenting her sales to the U.S.A. (from 70.5 to 87 milliard lire). The U.S.A. thus became in 1952 our second most important international market after Germany. The proportion of total Italian exports for which she accounted reached 10 per cent (compared with 6.8 per cent in 1951). The proportion of total Italian imports represented by imports from the dollar area remained on the other hand almost unchanged, at about 26 per cent (see Table VII).

In 1952 the rise in Italian exports to the dollar to the dollar area was accompanied by an increase in exports against dollars to countries not included in the area itself (from 19.5 to 31.9 milliard lire). Italian imports against dollars from such countries increased from 70.9 milliard lire in 1951 to 75 milliard lire in 1952. On the whole, then, Italy's trade in dollars with countries outside the dollar area reduced the dollar trade deficit by 8.3 milliard lire.

#### Distribution of Imports and Exports by Groups of Commodities.

10. — As is evident from Table V, the five major groups of commodities (food products, textiles, metal and mechanical engineering products, fuels, chemicals) still represent in value terms more than 80 per cent both of imports (1951: 87 per cent; 1952: 88 per cent) and of exports (1951: 86 per cent; 1952: 83 per cent). But the turn of events in 1952 led to a marked change in their relative proportions. The change affected especially the two major groups: it affected *textiles in the export field and mechanical engineering products in the import field*.

The value of textile imports decreased only slightly (by 14 milliard lire), as compared with the level of 1951, in spite of the fall of prices, whereas textile exports fell abruptly (by 178 milliard lire) with the result that the proportion of the value of total exports represented by them fell from 37 per cent (1951) to 24 per cent (1952).

Metal and mechanical engineering products, unlike textiles, showed a slight expansion (by 18 milliards), in respect of exports, partly because of rising prices. Far greater, however, was the growth in the value of imports (by 101 milliards), under the stimulus of the domestic investment programme (which affected imports of metal ores, machinery and equipment, etc.).

Metal and mechanical engineering products thus reached first place among the various groups of commodities, both as regards imports (24 per cent) and as regards exports (28 per cent). On the whole, the deficit in the balance of trade in the metal and mechanical engineering sector taken alone considerably deteriorated in 1952; it reached 98 milliards (as compared with 15 milliards in 1951).

The proportion of imports of food products to total imports diminished from 21 per cent (1951) to 19 per cent (1952). The proportion of exports of such products to total exports rose from 20 per cent to 23 per cent. The deficit in the balance of trade in food products remained approximately unchanged at a little above 70 milliards.

As regards fuels larger imports of crude oil (which rose from 103 to 139 milliards) greatly exceeded the reduction in coal imports (from 140 to 118 milliards); and they gave rise to considerable re-exports of the refined product.

#### Balance of Trade and Balance of Payments.

11. — The « General Report » published by the Ministry of the Treasury on March 31st, 1953 presents the trade deficit under a more favourable light. It shows the cash deficit, *i.e.* the difference between payments and receipts of foreign exchange registered by the UIC (Italian Foreign Exchange Office) on account of commercial transactions with foreign coun-

tries, as amounting in 1952 to 727 million dollars (475 milliard lire). This figure is considerably lower than the deficit calculated by the ISTAT (Central Institute of Statistics) on the basis of the statistics collected by the customs offices concerning the movement of goods. This marked difference reflects lags, involving considerable sums, between the shipping of Italian goods and the receipt of the relevant proceeds, or else between advance payments and the arrival of goods ordered abroad. As has already been observed, advance payments played a role especially for imports of capital goods, financed by ERP funds and by the special fund of 50 million pounds sterling.

The deficit in the balance of payments is

ITALY'S BALANCE OF PAYMENTS: 1951-52

TABLE X

(Millions of U.S. dollars)

	1952		1951		Percent change 1952 to 1951
	Millions of dollars	Per cent	Millions of dollars	Per cent	
<i>Receipts</i>					
Exports . . . . .	1,357.2	70.1	1,580.1	77.7	— 14.2
Freight . . . . .	165.5	8.6	132.2	6.6	+ 25.1
Tourism . . . . .	90.9	4.6	89.2	6.3	+ 1.9
Emigrant remittances . . . . .	102.1	5.2	69.4	3.5	+ 47.1
Income from investments . . . . .	17.1	0.9	17.2	0.8	— 0.01
Other services . . . . .	202.3	10.5	144.3	7.1	+ 40.1
<i>Total</i> . . . . .	1,935.1	100.0	2,032.4	100.0	+ 4.7 %
<i>Payments</i>					
Imports (C. I. F.) . . . . .	2,084.5	91.6	2,017.4	92.3	+ 3.3
Tourism . . . . .	14.1	0.6	13.8	0.6	+ 2.1
Income from investments . . . . .	15.8	0.7	15.9	0.7	— 0.01
Other services . . . . .	159.9	7.1	138.1	6.4	+ 15.7
<i>Total</i> . . . . .	2,274.3	100.0	2,185.2	100.0	+ 4 %
<i>Balance</i>					
Goods . . . . .	— 727.3		— 437.3		
Services . . . . .	388.1		284.5		
<i>Total</i> . . . . .	— 339.2		— 152.8		
Unsettled items, arbitrage, operations, etc . . . . .	28.1		28.7		
Adjusted balance . . . . .	— 311.1		— 124.1		
<i>Compensating items</i>					
E. C. A. disbursements . . . . .	217.9		279.6		
Changes in foreign exchange reserves . . . . .	— 93.2		155.5		

Source: *Relazione Generale sulla Situazione Economica del Paese*, submitted by the Minister of the Treasury to the Chamber of Deputies, 31st March 1953.

still lower. According to the UIC figures (*i.e.* the so-called « foreign exchange » balance of payments), the deficit amounts to 311 million dollars. This figure, which is considered to be a close approximation to the true situation, constitutes the difference between the merchandise deficit (727.3 million dollars) on the one hand the surplus from the invisible items (388.1 million dollars) and items in course of settlement, arbitrage operations, etc. on the other (see Table X). The surplus from

#### ERRATA CORRIGE

Pag. 59, col. 2, line 12: Instead of « or more especially the domestic investment programme », read « or more especially of aiding the domestic investment programme ».

dollars, as against a deficit of 311.1 million dollars. As a consequence of these changes the foreign exchange reserves, which increased in 1951 by 155.5 million dollars, decreased in 1952 by 93.2 million dollars.

At the end of March, 1953 the Italian foreign exchange reserves, according to reliable estimates, amounted to a total of 841.2 million dollars, and consisted of 496.7 millions in gold, dollars, and hard currencies, 52 million EPU units, 84.6 million in pounds sterling and other currencies of EPU countries, and 177.1 millions of net credits in clearing accounts and other non-transferable currencies (Argentine pesos, cruzeiros, etc.).

#### Conclusions.

1) The deficit in Italy's merchandise balance reached such proportions in 1952 that it could no longer be covered by the surplus from the invisible items, and by American aid. There thus began a drain on the foreign exchange reserves which Italy had accumulated both through the cautious use of her ERP dollar resources, and through the increase in trade brought about by the Korean war.

2) The principal causes of the crisis in the Italian balance of trade in 1952 are:

(a) The world textile crisis which hit the sector of Italian industry which had long been the largest contributor to exports.

(b) The foreign exchange crises that came to a head at the end of 1951, and the restrictions that were consequently reimposed by other countries on imports of our products.

(c) The « import policy » pursued by the Italian authorities with the purpose either of reducing our credits abroad, in conformity with the operating requirements of the EPU, or more especially the domestic investment programme.

(d) The absence of an Italian « export policy ». Italy has lacked so far the consistent, methodical, and efficient action which the principal industrial countries have taken during the post-war period in the name of the « export-drive ». Both public agencies, and private firms and commercial organisations have been deficient in this respect.

3) So far as Government action is concerned, it seems that, given the character of our administrative and economic structure, this should follow orthodox lines: that is, the liberalisation policy and the development of an export policy. A return to quantitative restrictions on imports cannot be considered except as an extreme measure.

4) Italy's attitude towards the liberalisation policy is conditioned by the structural weakness of economy. As a country which imports raw materials and semi-manufactured goods, and exports, to a large extent, non-essential products, Italy is interested in stability of international trade, and in all measures aimed at the expansion of markets. It is thus of vital importance for her to resist the restrictive tendencies prevailing in other countries, and her policy in the OEEC is motivated by this necessity. The maintenance by Italy of liberalisation at the exceptionally high level reached in November, 1951 obviously requires, however, that the other principal EPU countries should follow the same line. Moreover, the persistence of a serious commercial deficit might induce the adoption of some discriminatory revision especially as regards non-essential goods.



5) An « export policy » becomes more and more necessary as markets become « buyers' market » and as competition increases with the return of important exporting countries (Germany and Japan) that were temporarily eliminated by the events of the early post-war period. A serious approach to this problem must lay stress on the fiscal, insurance, and credit aspects. The introduction of special facilities for exports raises, however, certain difficulties (due especially to the scarcity of capital), and their effectiveness may be limited by the conditions of foreign demand, by costs and other factors affecting the responsiveness of Italian production, and by the continual accentuation of the « export drives » of other countries. Excessive facilities in favour of exports, which in the pre-war period were largely based on competitive currency depreciation, are being repeated in these post-war years in a much greater variety of forms and in continually growing measure, in consequence they are even more likely to be self-defeating in the long run and are perhaps more dangerous in their effects on the terms of trade of the exporting countries.

For all these reasons Italy has hesitated to engage in such practices herself and is insisting in the OEEC on the advisability of obtaining an agreement for the mitigation of some of the practices followed by other countries.

6) Thus the problem of the crisis in Italy's foreign trade position links up with that of international cooperation; such cooperation is essential to the solution of the basic problems of the Italian economy, burdened as it is with a structural disequilibrium between natural resources and population. Up to now international cooperation — however broad in the field of economic aid — has fallen short in that of emigration; all the more serious therefore would be a failure in the field of international trade. The difficulties come not only from the side of the EPU countries, but also from the accentuation of protectionist tendencies in America.

7) The Italian investment policy — and the associated expansion of consumption — can count on a certain volume of foreign ex-

change reserves. But, in the long run, only a rise in exports can provide the means for continuing such a policy. The persistence of a trade deficit of dimension which cannot be covered by the proceeds of the invisible items and foreign aid (28) would necessitate restrictive measures and, as a consequence, a slowing up of the programmes aimed at raising employment and national income above the present low levels.

#### *Post-scriptum.*

No discussion of the possible future development of the Italian trade crisis with EPU countries and with the dollar area can be more than a matter of conjecture. The manner in which recent and authoritative forecasts have been disproved by the actual course of events (29) counsels extreme caution in this regard.

Nevertheless, it may be useful to review the points that have been raised in support of the view that the worst is over and that the tendency is now more towards an improvement than towards a deterioration.

(a) As regards the *EPU countries*, the decline in Italy's credit position towards the EPU puts exceptional measures for stimulating imports such as operated in 1952 out of the question. The imports of capital goods financed by special loans are also coming to an end. The pressures of Italy's investment policy, which might bring Italy into a debtor position in the EPU, remains an imponderable element. On the other hand, exports to EPU countries should benefit from the relaxing of quantitative restrictions (30).

(28) A slight increase in receipts from the tourist trade and from emigrants' remittances is expected for 1953; on the other hand it is not unlikely that receipts from freight (given the world-wide decline in rates) will fall. In any case there will not be any substantial increase in net receipts from « invisibles ». A much more significant contribution will be made by American « off-shore » purchases. Even so, only a recovery in commodity exports can play a decisive role in reducing the trade deficit.

(29) Thus official sources foresaw that Italy would remain in a creditor position towards the EPU in 1952-1953 and in 1953-1954; in fact, in March, 1953, her credit position was already disappearing, and in May-June, she will undoubtedly have a debit position. See « *Europe - The Way Ahead; Towards Economic expansion and Dollar Balance* », OEEC, Paris, December 1952, pp. 290-291.

(30) In the first quarter of 1953 Italian imports from EPU countries increased by 19.6 per cent as compared to the corresponding period of 1952 (from 214 to 256 milliard lire), while in 1952, as compared to 1951, they had increased by 15.9 per cent (see Table IV). Imports from the sterling area increased by 20.4 per cent (from 79.3 to 95.5 milliard lire); while in 1952, as compared to 1951, they had increased by 7.5 per cent (see Table IV). In the export side the decline of Italian sales

(b) The *dollar gap* might be aggravated by several factors: the reduction of certain dollar exports of an exceptional character (sales of rice to Japan to the amount of about 8 billion lire, and of fertilizers to Korea to the amount of about 4 billion lire); the decline in exceptional sales to the United States of goods required for the rearmament programme and for stock piling of strategic materials (machine tools, steel products, mercury, cast iron and iron alloys, aluminium); and the possible raising of tariffs. A factor working in the opposite direction might be the reduction of Italian purchases of cereals, cotton, and coal, which were exceptionally high in 1952. Indeed, in the case of wheat, a resumption of buying in Argentina is probable; in the case of cotton, imports from the United States will shrink with the

towards EPU countries continued, though at a slower rate in 1952 than in 1951; they fell from 163 to 145 milliard lire (see Table VII). Exports to the sterling area fell by 31 per cent (from 55 to 38 milliard lire) as compared to a reduction of 33.1 per cent in the first quarter of 1952.

exhaustion, in 1953, of the Eximbank-ERP funds utilized for that purpose; as regards coal, there should be a rise in British exports (31).

(c) In the first quarter of 1953 the index of average import prices declined (by 13.7 per cent), with respect to the corresponding period of 1951; their fall was much more marked than the fall (of 5.5 per cent) in the index of export prices. The *terms of trade* consequently improved (from 100.5 in the first quarter of 1952 to 105.1 in the first quarter of 1953). Should this movement be sustained, it would contribute to the lessening of the trade deficit.

(31) In the first quarter of 1952, as compared to the corresponding period of 1951, imports from the dollar area diminished by 21.3 per cent (from 99 to 78 milliard lire) as against an increase of 8.9 per cent in 1952, with respect to 1951 (see Table IV). Exports to the dollar area continued to grow at a rate almost equal to that of 1952: they increased by 11.3 per cent (from 27.2 to 30.3 milliard lire) as against an increase of 11.7 per cent in the corresponding period of 1952.