

Features of the Present Italian Customs Tariff

by

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I - Reasons for the Customs Reform.

1. — Italy emerged from the second world war with the old 1921 tariff. Under this tariff the duties were specific (being levied according to the weight of the goods, the number of articles, or their cubic content) and, following the heavy increase in prices, had lost their protective effect (1).

This tariff was the result of studies which began as early as 1913, and were completed in 1917. It was finally put into force in 1921 (2), subject to certain revaluation coefficients designed « to take account of the changes which had occurred since 1914 in the general level and structure of prices of goods having an international market »; it was in fact out of date before it was born (3). When the lira was first officially devalued in December, 1927 (4) the duties, which were previously expressed in gold lire, were converted to a paper lira basis (5). The method used was to multiply them by a coefficient (3.67) equivalent to the proportion in which the gold content of the lira was reduced (6).

(1) When Italy was united in 1860, the Piedmontese system of Customs duties was extended to the whole country. This was based on *ad valorem* duties. They went up to a maximum of 10 per cent, but their average incidence was estimated in 1863 as being around 3.50 per cent. The system was in fact plainly liberal in tendency. Towards 1880 a movement in favour of protection was already apparent; and this reached its peak in the tariff of 1887. It is calculated that the average rate of duty under this tariff, which was based on specific duties, was 60 per cent. (See M. BANDINI, *Conseguenze e problemi della politica doganale per l'agricoltura italiana*, monograph appended to the Report on Agriculture, Ministry of the Constituent Assembly, Rome, 1946).

(2) Royal Decree Law No. 806 of 9th June, 1921.

(3) See the Ministerial Report on the bill « to authorise the Government to issue a new general tariff of Customs duties »: Chamber of Deputies, Paper No. 638, 1949.

(4) Royal Decree Law No. 2325 of 21st December, 1927.

(5) Royal Decree Law No. 2326 of 21st December, 1927.

(6) Under the 1921 law Customs duties were collected in gold lire, or alternatively in paper lire at the fixed parity laid

Meanwhile there had begun the gradual abandonment of the liberal tendencies which had been followed until then by the Fascist regime in its commercial policy. The duties on many items were by degrees made more severe; and in Italy, as in other countries, many of them reached record levels during the great depression of 1930-33 (7). In 1935 a special *ad valorem* charge called a « licence fee » (*diritto di licenza*) was added to the specific duties (8).

The second devaluation of the lira (9) took place in 1936. This time, although the gold content of the currency was further reduced, no new coefficient was applied to the duties (10). It was feared that the world market situation might seriously affect the internal price structure; and physical controls and direct regulation of foreign trade were already in full use. These considerations made the Government

down by the Monetary Law No. 788 of 22nd August, 1862, which made 100 lire equal to 29.032 grammes of fine gold. The 1927 devaluation changed the gold content of the lira so that 100 lire became equal to 7.919 grammes of fine gold, the coefficient of reduction being 3.67. At the same time it was provided that Customs duties should be collected in paper lire, subject to a coefficient of 3.67 by which the duties set forth in the tariff were to be multiplied. In this way the tariff remained linked to the old parity in terms of gold.

(7) For example the duty on grain, which was reintroduced in 1925, had reached a level of 144 per cent by 1931 (see G. DE MEO, *Aspetti quantitativi della politica granaria italiana*, in « *Economia Internazionale* », February 1950, p. 187).

In 1931, the Royal Decree Law No. 1178 of 24th September in that year introduced an *ad valorem* supplementary duty of 15 per cent or 10 per cent, according to the goods concerned; this however did not apply to goods where the duties were governed by international tariff conventions. This supplementary duty was abolished five years later in October, 1936, when the lira was devalued for the second time.

(8) This was a special additional charge, being fixed at the rate of 3 per cent on all goods imported. It was said to be justified as representing repayment of the administrative costs entailed in Customs formalities. It was introduced by the Royal Decree Law of 13th May, 1935.

(9) Royal Decree Law No. 1745 of 15th October, 1936.

(10) The coefficient of devaluation of the lira was this time 1.69. The effect was to reduce its gold content from 7.919 grammes to 4.677 grammes per 100 lire.

decide to leave the tariff as it was (11). The practical result was automatically to lower the level of the duties. This tendency was accentuated by the many tariff concessions allowed to various countries; and later by the progressive depreciation of the lira.

The war of course aggravated this situation still further. Rough calculations show that by 1947 the far-reaching depreciation of the currency and the heavy rise in the prices of imported goods, had on a broad average reduced the incidence of the tariff to 1 per cent. Thus its protective value was nil, and it produced no revenue worth mentioning.

In August, 1947 (12) the Government tried to remedy matters by raising to 10 per cent the licence fee which had been introduced in 1935, and had already been raised to 5 per cent in April, 1943 (13). This certainly did something to stop the loss of Customs revenue due to currency depreciation. But it caused trouble and anomalies owing to the fact that the fee was applied without discrimination to all imported goods, whether they were raw materials, semi-finished or finished products; and it would have been bound sooner or later to create great difficulties for Italian producers who mainly depend on supplies of raw materials and semi-finished goods from abroad.

2. — The drawbacks of the new state of affairs — the fact that the tariff was ineffective and that the licence fee was charged indiscriminately at a uniform rate all round — seemed unimportant in the first years after the war, when physical controls of all kinds provided «protection», and sellers' markets prevailed. However, as soon as a start was made with abolishing controls and liberalising trade, increasing demands were made for the introduction of an up-to-date and effective Customs tariff which would protect Italian industries and promote their power to compete, and which would at the same time serve as a bargaining instrument in talks on tariffs with other countries.

(11) There was only some reduction of the duties on goods of general consumption under Royal Decree Law No. 747 of 5th October, 1936, with one or two adjustments later in 1937 and 1938.

(12) Royal Decree Law No. 822 of 12th August, 1947. See also footnote 8 on page 159.

(13) Royal Decree Law No. 249 of 15th April, 1943.

It will be remembered that Italy took part only as an observer in the first GATT Tariff Conference held at Geneva (from April to August 1947). But at the Annecy Conference, to which Italy was invited in order that she might become a member of the GATT, it was essential that she should have a new tariff (14), abolishing the *ad valorem* licence fee forbidden by definite international agreements (15), and above all taking into account the changed economic conditions underlying international trade, as well as the new techniques.

One course would have been simply to adjust the specific duties in the 1921 tariff to the new value of the currency. In fact, the first plans studied were on those lines. Among the practical difficulties encountered, however, one was virtually insurmountable: this was that the 1921 tariff was obsolete in the technical sense. Its classification of goods by categories had been worked out between 1913 and 1917, and later touched up here and there without, however, any overall revision. The technical progress in production made during the following years had left it badly out of date. For that reason it was found better to recast the tariff completely; and in addition there were strong grounds for changing back from specific to *ad valorem* duties.

II - The new «General» Tariff.

3. — The work of drafting the new tariff began in the Government departments at the end of 1947. In 1949 the Government presented to Parliament a bill authorising it to decree the new tariff with the assistance of a Special Parliamentary Commission (16). This new act

(14) In actual fact it was the draft of the new tariff which Italy presented at Annecy.

(15) As will be remembered, the Havana Charter and GATT forbid the keeping in force of accessory charges which amount to more than pure reimbursement of administrative expenses.

(16) The bill was presented to Parliament on 22nd June, 1949, while the Annecy Conference was proceeding, and was approved on the following 24th December as Law No. 933 of that date.

The method of a Special Commission is somewhat unusual in the history of Italian legislation. It was rendered necessary by the need to bring the new Italian tariff into force quickly, so that it should coincide with the coming into force of the duties agreed at Annecy. These latter came into force on 1st July, 1950.

gave the Government the freedom of action which it desired, and made it possible fully to work out the new tariff, which came into force on 15th July, 1950 by virtue of Presidential Decree No. 442 of 7th July, 1950.

Meanwhile the 10 per cent licence fee had been abolished. Its place was taken by a «charge for administrative services» at the rate of 0.50 per cent *ad valorem* on the goods imported (17). Thereby Italy completely conformed to the international agreements on the subject.

We shall refer to this tariff, as embodied in Decree No. 442 of 7th July, 1950, as the «General Tariff». However, by the time when it came into force on 15th July it had already been largely emasculated by a number of alleviations and qualifications. These were increased during the next few years. As a result of this, there has grown up beside the «general tariff» — which is almost entirely theoretical — the so called «working tariff», i.e. the one containing the duties actually levied. It is to the «working tariff», which differed greatly from the general tariff, that we must refer in order to judge the present level of Customs duties in Italy. We shall do this in Section III of the present article. First however we must describe the main features of the «General Tariff», even though it is more like a theoretical ceiling than a real tariff.

4. — The new «General Tariff» differs from that of 1921 both in its classification of goods and in the criteria for applying duties.

Its nomenclature of goods follows on the whole the schemes worked out by the Brussels Study Group for the European Customs Union. It divides the goods into 21 sections, which are further divided into 98 chapters and 1,361 items. Many of these in turn comprise sub-items, numbering altogether 5,237.

As to the charging of duties the chief difference from the 1921 tariff is that these are now *ad valorem* instead of specific. The uncertain international currency situation, coupled with the experience of inflation during and after the war, left virtually no choice but to apply the *ad valorem* method, even though it has some drawbacks. For instance, it offers

(17) Law No. 330 of 15th June, 1950.

more chances of defrauding the revenue than specific duties do; and when there is inflationary pressure it may become a further source of inflation, because the duty on goods will rise proportionally when their price rises, thereby accentuating the movement. That in fact is just what happened in the summer of 1950 when the new tariff was brought in; and this was one of the reasons why it was decided to modify the general tariff, so that supplies could be more easily obtained from abroad, with import prices rising less.

There are only 44 items in the new tariff which are subject to specific duties as well as to the *ad valorem* duties; and there are no more than 20 items, under the heads of tobacco and moving picture films, for which the duties are purely specific.

5. — It is difficult — and would perhaps be useless — to ascertain the incidence of the general duties of the 1921 tariff and the following modifications down to World War II. According to the experts, the pre-war general tariff had reached an average level not distant from the level of the 1950 general tariff, although some variations had occurred from one section to another. For the 1950 general tariff an average incidence of 24 per cent has been proposed, but this figure, being the result of a simple arithmetical mean, has a relative significance and can be only taken as a rough approximation (18).

Anyhow there can be no doubt that the two general tariffs (1938 and 1950) bring the protection up to a high level. But the pre-war general tariff had already been lowered by a series of international agreements. This had led to a working tariff whose level was estimated in 1938 around 15.55 per cent if goods exempt from duty are included, and 19.22 per cent if they are not. If allowance is further made for the «licence fee» which in 1938 was 3 per cent (but has now been abolished), the two figures rise to 18.55 and 22.22 per cent respectively (19).

(18) See E. CORBINO, *Le nuove tariffe doganali*, in «Banca», No. 9 for 1950, p. 829 ff.

(19) Compare E. ANZILLOTTI's monograph *Misura del livello della tariffa doganale italiana*, Report of the economic Commission of the Ministry for the Constituent Assembly, Rome 1946.

Dr. Anzillotti in a study on the working tariff of 1938 (20) calculated the average level of customs for large branches of production, thus helping to define their position in relation to international prices. These levels are summed up in the following simple arithmetical means:

| | Per cent |
|-----------------------------------|----------|
| Live Animals | 25.86 |
| Food Products | 42.78 |
| Raw and Basic Materials | 6.44 |
| Semi-finished Goods | 13.48 |
| Finished Goods | 21.12 |

As will be seen, the highest protection is for farming under the head of « food products ». The duties serve mainly to protect the growers of cereals, especially of grain, since grain growing covers a greater area in Italy and employs more people than any other occupation. The protection is much lower for « live animals », *i.e.* for stockraising. This is the other main branch of Italian farming, and its development is now perhaps the most important problem facing Italian farmers (21).

In the case of raw and basic materials the duties are low, where there are any at all, and are chiefly designed to produce revenue (22).

(20) See ANZILLOTTI, *op. cit.*

(21) The process however is bound to be slow and gradual. One need only think of the effects which must be produced by an upheaval of this kind on the work and livelihood of millions of people; on the far-reaching technical transformations that would be needed; on the financial cost; on the structure of our agricultural system, with fragmentary farms and tiny holdings in many areas; and on the difficulty of overcoming traditions which have been rooted in the people for centuries. (See G. MEDICI, *The E.R.P. and the Problems of Italian Agriculture*, in No. 7 of this Review for 1949, pp. 416 ff.).

(22) In 1952 the imports not subject to duty reached a total value of 465 milliard lire. This was equal to 32 per cent of all imports. Details are as follows:

Goods exempt from duty imported in 1952

| | (Millions of lire) |
|--------------------------------|--------------------|
| Coal | 118,018 |
| Wool and waste | 77,771 |
| Iron and steel scrap | 29,559 |
| Rags | 12,059 |
| Natural rubber | 24,569 |
| Crude petroleum | 139,059 |
| Raw hides | 12,701 |
| Metal ores | 12,765 |
| Sundry products | 39,133 |

Total 465,634

Since Italy lacks natural resources, it is clearly essential to provide our manufacturing industries with raw materials at the lowest possible cost. A difficult problem has however arisen, as will be seen in Section IV, in regard to iron and steel products.

Where the duties reach high levels is in the case of finished goods. This is one manifestation of the general state of affairs which makes the production costs in Italian industry high, and which arises from a number of factors, not all of which are internal in character. Thus the shortage of raw materials often handicaps the Italian producer as compared with his foreign competitors who are better supplied (enjoying the benefits of double pricing systems, lower transport costs, etc.). Besides this the Italian home market is poor, so that mass production and rationalisation of industry are more difficult; and, finally, her industrial system is rigid and her labour immobile, largely because of the chronic excess of workers (23).

These ratios between the major economic branches have not undergone appreciable changes in the 1950 tariff. This was indeed bound to be so. Variations could only be introduced by stages and to a limited extent, as the different degree of protection accorded to the different economic branches reflects some basic features of the Italian productive system which hold good to day as in pre-war years.

III - The « Working Tariff » and its Development from 1950 to 1953.

6. — As has already been indicated, the level of the present « general tariff » may be regarded as being roughly the same as the « general tariff » of before the war, and, if it were applied, it would undoubtedly place Italy among the relatively high tariff countries of Western Europe. But the level of the present « working tariff », comprising the duties which are in fact applied, is much lower than that of 1938, and much lower than the present « general tariff ». This may be seen from Table I, which shows, for the most important

(23) See G. RUFFOLO, *The Parliamentary Inquiry into Unemployment in Italy*, in No. 24 of this Review for 1953, p. 71.

PERCENTAGE RATES OF DUTY ON MAIN GROUPS OF PRODUCTS UNDER THE « WORKING TARIFF » OF 1938, THE « GENERAL TARIFF » OF 1950 AND THE « WORKING TARIFF » APPLIED IN THE AUTUMN OF 1953

| 1938 Working Tariff (a) | | Group of Products | Rate of Duty (Per cent) | |
|--|-------------------------|--------------------------------------|-------------------------|---|
| Group of Products | Rate of Duty (Per cent) | | 1950 General Tariff | Working Tariff Applied in Autumn 1953 (a) |
| <i>Foodstuffs</i> | | <i>Foodstuffs</i> | | |
| Live animals | 25.86 | Live animals | 29 | 16 |
| Meats, soups, eggs | 31.57 | Meats, soups, eggs | 28 | 18 |
| Fish products | 19.95 | Fish products | 27 | 18 |
| Dairy (milk and cheese products) | 12.56 | Dairy (milk and cheese products) | 24.5 | 18 |
| « Colonial » goods and substitutes, and sugar products | 123.19 | { Coffee, tea, spices | 67 | 50 |
| | | { Sugar | 105 | 94 |
| | | { Sugar products | 37 | 33 |
| | | { Sparkling wines | 90 | 50 |
| | | { Ordinary wines | 45 | 28 |
| Beverages | 82.77 | { Brandy | from 60 | 35 |
| | | | to 90 | 90 |
| | | { Oil seeds and oil fruits | 10 | from 8 |
| | | | | to 10 |
| Oil seeds and oil fruits | 26.33 | Edible oils and fats | 25 | 20 |
| Edible oils and fats | 50.14 | | | |
| <i>Textile Products</i> | | <i>Textile Products</i> | | |
| Raw hemp | exempt | Raw hemp | exempt | exempt |
| Raw flax | 15.50 | Raw flax | 10 | 5 |
| Raw jute | exempt | Raw jute | 5 | 4 |
| Raw cotton | 28.72 | Raw cotton | 8 | 6 |
| Drawn silk | exempt | Drawn silk | 15 | 13 |
| Wool | exempt | Wool | exempt | exempt |
| Simple linen yarns | from 7.67 | Simple linen yarns | from 15 | 5 |
| | to 28.63 | | to 25 | 23 |
| Simple jute yarns | 18.57 | Simple jute yarns | 30 | 18 |
| Simple cotton yarns | 13.17 | Simple cotton yarns | from 15 | 13 |
| | | | to 20 | 16 |
| Thrown cotton yarns | 53.45 | Thrown cotton yarns | from 15 | 13 |
| | | | to 20 | 16 |
| Woollen yarns | from 6.70 | Woollen yarns | 14 | 11 |
| | to 10.64 | | | |
| Rayon | 35.44 | Rayon | 25 | 16 |
| Linen fabrics | from 5.11 | Linen fabrics | 35 | from 13 |
| | to 25.97 | | | to 22 |
| Jute fabrics | 21.56 | Jute fabrics | 40 | 22 |
| Cotton fabrics | from 14.57 | Cotton fabrics | from 20 | 13 |
| | to 40.89 | | to 30 | 18 |
| Woollen fabrics | from 12.91 | Woollen fabrics | 26 | 18 |
| | to 16.64 | | | |
| Silk fabrics | from 9.10 | Silk fabrics | 25 | 16 |
| | to 29.53 | | | |
| Rayon fabrics | from 17.70 | Rayon fabrics | 25 | 16 |
| | to 90.48 | | | |

(a) The working tariff gives in both cases the duties actually levied.

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| 1938 Working Tariff (a) | | Group of Products | Rate of Duty (Per cent) | |
|---------------------------------------|-------------------------|---------------------------------------|-------------------------|---------------------------------------|
| Group of Products | Rate of Duty (Per cent) | | 1950 General Tariff | Working Tariff Applied in Autumn 1953 |
| <i>Iron and Steel Products</i> | | <i>Iron and Steel Products</i> | | |
| Pig iron | 16.46 | Pig iron | 15 | 9 |
| Steel ingots | 25.57 | Steel ingots | 20 | 15 |
| Steel rods | from 43.09 to 46.55 | Steel rods | from 22 to 35 | 16 22 |
| Steel plates | from 39.94 to 48.91 | Steel plates | from 22 to 35 | 18 23 |
| Rails | 21.08 | Rails | 35 | 20 |
| Copper | 3.50 | Copper | 3.50 | 1 |
| Aluminium | 25.07 | Aluminium | 35 | 25 |
| Lead | 27.03 | Lead | 20 | 13 |
| <i>Engineering Products</i> | | <i>Engineering Products</i> | | |
| Tools | from 1.47 to 24.79 | Tools | from 20 to 45 | 13 25 |
| Alternating steam engines | 12.37 | Alternating steam engines | 35 | 18 |
| Rotary steam engines | 10.57 | Steam turbines | 35 | 15 |
| Agricultural machines | from 15.90 to 25.56 | Agricultural machines | from 35 to 40 | 9 25 |
| Printing machinery | from 2.26 to 9.25 | Printing machinery | from 20 to 35 | 7 30 |
| Textile machinery | from 6.05 to 12.45 | Textile machinery | from 20 to 30 | 16 25 |
| Typewriters | 37.39 | Typewriters | 45 | 20 |
| Cash registers | 58.93 | Cash registers | 30 | 20 |
| Motor-cycles | 34.74 | Motor-cycles | 60 | 31 |
| <i>Sundry Products</i> | | <i>Sundry Products</i> | | |
| Coloured porcelain | 38.29 | Coloured porcelain | from 50 to 55 | 29 45 |
| Glass and plate-glass panes | from 12.43 to 68.49 | Glass and plate-glass panes | from 45 to 50 | 27 31 |

classes of commodities, the rates of duty actually applied in 1938 and 1953 respectively, along with the rates of the 1950 «general tariff».

As the above table shows, the heaviest and most general reductions are those that have been made for the *steel group*, as a result both of the «Sinigaglia plan» and of the European Coal and Steel Community (see further on, Sec. IV). The duty on pig-iron has been re-

duced from 16.46 per cent in 1938 to 9 per cent in the autumn of 1953; that on steel ingots from 25.57 to 15 per cent. The duty on steel rods which in 1938 varied, according to the type of product, between 43.09 and 46.55 per cent, now stands between 16 and 22 per cent. In the case of steel plates the duty has fallen from 40-49 per cent to 18-23 per cent; of rails from 21 to 20 per cent; of lead from 27 to 13 per cent.

The relinquishment of the pre-war policy of «self-sufficiency» has allowed of more or less substantial reductions also for the *food products* group, which, with the single exception of «milk and its products», extend to all items; in the case of live animals the duty has been reduced from 25.86 to 16 per cent; in that of meats from 31 to 18 per cent; for fish products from 19.95 to 18 per cent; for oil seeds and oil fruits from 26.33 per cent to 8-10 per cent; for edible oils and fats from 50 to 20 per cent. The duties on coffee, tea and pepper — levied for revenue purposes — now stand at 50 per cent as against 115, 299 and 243 per cent respectively, in the pre-war period. The duty on sugar, even though still very high (24), has been halved; from 186 it has been brought down to 94 per cent.

In the case of *textile products* the direction of the movement in the rates of duty between the two periods is not uniform. For one group of products there have undoubtedly been marked reductions as in the case of raw flax in which the rate of duty has fallen from 15.50 to 5 per cent; raw cotton from 28.72 to 6 per cent; linen yarns from 7-28 to 5-23 per cent; thrown cotton yarns from 53.45 to 13-16 per cent; rayon from 35.44 to 16 per cent; cotton fabrics from 14-40 to 13-18 per cent, rayon fabrics from 17-90 to 16 per cent. For another group of products the duties have remained practically unchanged; these are jute yarns, linen fabrics, jute fabrics, silk fabrics. For a third group there have been increases of a few points: thus the rate of duty has risen from 12-16 to 18 per cent for woollen fabrics; from 6-10 to 11 per cent for woollen yarns; from 13 to 13-16 per cent for cotton yarns. In the case of drawn silk and jute, which were duty free before the war, a protective duty of 13 and 4 per cent is now levied respectively.

In the case of the *engineering products* the movement also differs from one product to another, but in this case the upward adjustments have outnumbered the downward ones. Thus we note a rise in the case of tools (from 1-24 to 13-25 per cent), of alternating steam

(24) For the reasons that justify the high tariff protection on sugar — a phenomenon common to all the producing countries of Western Europe — see the article by Prof. P. ALBERTARIO, *Italian Agriculture in the Framework of the New Customs Tariff*, in No. 14 (1950) of this Review, pag. 181 ff.

engines (from 12 to 18 per cent); steam turbines, printing machines and calculating machines. On the other hand, the rates on agricultural machinery have fallen from 15-25 to 9-25 per cent; typewriters from 37 to 20 per cent; cash registers from 58 to 20 per cent; motor-cycles from 34 to 31 per cent. The need for raising the duties on many engineering products may seem strange. But the fact is that in most cases the heavier protection is not so much due to a deterioration in our position as competitors on world markets as to the fact that prior to the war imports of these goods were subject to quantitative controls, and the tariff was therefore of secondary importance. At the present time, on the contrary, imports of engineering products from the OEEC countries have been almost entirely liberalized. Motor-cars are the only important exception (25).

The same conclusion concerning the level of the effective rates of duty is borne out by the figures in Table II, which compares the

TABLE II
CUSTOMS DUTIES FROM 1938 TO 1952

| Year | Imports (a) | Duties, licence fees and administrative charges | Rate (per cent) |
|------|--------------------|---|-----------------|
| | (thousand of lire) | | |
| 1938 | 10,464,455 | 1,433,758 | 13.79 |
| 1948 | 792,899,000 | 38,523,681 | 4.85 |
| 1949 | 777,967,000 | 54,913,829 | 7.05 |
| 1950 | 807,961,000 | 59,555,695 | 7.37 |
| 1951 | 1,198,643,861 | 77,971,016 | 6.50 |
| 1952 | 1,215,008,020 | 79,051,985 | 6.50 |

(a) Excluding goods temporarily imported.

Source: Records of Parliamentary Proceedings, Chamber of Deputies, Session of 28th September, 1953. Statements by the Minister of Finance, Signor Vanoni.

value of imports with Customs revenues over a series of years between 1938 and 1952. This table shows that the ratio between Customs revenues and the value of imports fell from 13.8 per cent in 1938 to 6.5 per cent in 1952.

The method of measuring the level of the tariff used in Table II (the «weighted average»

(25) Motor-cars are also protected by a 45 per cent *ad valorem* duty. The last car models, however marked noteworthy progress towards reducing the difference between Italian and foreign costs.

method) is admittedly in principle open to serious objections, especially since the higher the duty on any given commodity, the lower the value of imports of that commodity will usually be, and the lower also, therefore, its « weighting » in the calculation of the average. In the particular case of Italy however the « weighted average » has some significance as a measure, in as much as the decline in the effective tariff rates has not only been very marked but has also been accompanied by an unprecedented expansion in imports of all categories of goods (26). In real terms indeed the value of 1952 imports was more than twice the value of 1938 imports.

The present low level of the effective rates of duty is due to the alleviations which, as previously mentioned, the Government applied from 1950 onwards in reduction of the « general tariff », thereby producing the « working tariff ». In reality the « general tariff » has been regarded as a « ceiling » to be used in bargaining, and to be applied only in the last resort. The effective duties could rise to equality with those of the « general tariff » or could remain below them: this was to depend on circumstances such as Customs policy in the United States and the British Commonwealth, the results of international agreements and conferences, fluctuations in the level of business, and so forth. The « rules of first application » laid down what criteria were to be followed in determining this « managed » application of the tariff; and they expressly referred to the state of markets, to the supply situation, and to the needs for consumption and for the re-equipment of the country's economic system.

In the summer of 1950, in particular, a number of considerations made it desirable to have the duties at a *moderate* level. The chief need at that time was to counteract the inflationary pressure let loose by the Korean war; and that pressure would have been made stronger if the « general tariff » had been fully applied. Moreover, important negotiations on

(26) One item which contributed a good deal towards bringing down the ratio between Customs revenues and the value of total imports was grain: the duty on this is at present « in suspense », as there is still a Government monopoly of imports. Another item was iron and steel products, on which the tariff protection has been cut by nearly a half as compared with before the war.

Customs policy were in prospect, including the Torquay Conference and talks with a view to bilateral agreements with France and Switzerland. There would thus have been no point in applying the high rates of the « general tariff », only to return a few months later to the moderate rates set forth in the agreements.

The following paragraph lists the main alleviations which were allowed.

7. — (a) Mention must first be made of the « temporary rules of first application », which came into force on 15th July, 1950 at the same time as the new « general tariff » (27). *Apart from certain limited exceptions* these rules laid down that, where the new duties were greater than 11 per cent *ad valorem*, the duty applied would be the mean between 11 per cent and the duty in the new « general tariff ». The higher the new duty, the greater the cut. This was called the « Vanoni formula » after the Minister who proposed it (28). The basic idea was that from 1947 onwards the general average of the specific duties under the 1921 tariff should amount to not more than 1 per cent *ad valorem*; and this, added to the 10 per cent licence fee, made a total of 11 per cent.

These « temporary rules » were meant to remain in force until 15th July, 1951. In fact their validity was extended for periods of six months at a time, subject to a few amendments which need not be described in detail (29). At the present time (Autumn 1953) they are still

(27) Presidential Decree No. 453 of 8th July, 1950.

(28) The duty to be charged is found from the following formula:

$$d = \frac{D + 11}{2}$$

where *d* is the duty to be charged, and *D* is the duty under the new « general tariff » (see the Records of the Italian Senate, Draft Laws and Reports, Report by 5th Parliamentary Commission No. 2458-A).

The system which was devised for softening the effect of the new general tariff was certainly not free from faults. It was no doubt desirable to avoid or at least reduce excessive tariff protection at a time when prices were rising. This however was apt to change the relation between the duties charged on products which were linked, for example, through the fact that they were used in successive phases of the same production process. This gave rise once again to the danger of tariff anomalies between different products which the Government had sought to obviate by abolishing the licence fee.

(29) Presidential Decrees No. 443 of 8th July, 1950; No. 516 of 30th June, 1951; No. 1125 of 1st November, 1951; No. 169 of 31st March, 1952; No. 2387 of 24th December, 1952; No. 38 of 9th February, 1953; and No. 58 of 28th February, 1953.

in force. If they are not prolonged they will lapse at the end of December, 1953 for most products, and in July, 1954 for the remaining items (30).

(b) Apart from the reductions under the Vanoni formula, the Italian authorities also unilaterally reduced the duties on a large number of goods of special importance in the Italian economy.

(c) In addition there were the reductions under international agreements. At present the agreements made by Italy inside and outside GATT cover much the greater part of her imports. The reductions allowed have been large. Those made at Torquay, for instance, range around an arithmetic average of 26 per cent (31).

(d) Besides all this, the Government decided in November, 1951 to reduce virtually all Customs duties by a further 10 per cent (32). This was one of the steps taken in the fields of tariff, foreign exchange, and credit policy to help reduce Italy's creditor position within the E.P.U. by expanding imports. Thus, in the same month the liberalisation of our imports was pushed up to 99 per cent (33). The 10 per cent reduction of duties was called « exceptional », and was to have lapsed on 31st March, 1952; but it was in fact prolonged and is still in force.

8. — The Italian tariff wall has, however, also been breached in other ways than those already mentioned. Exemptions and reductions have been given for a variety of purposes (oil prospecting, shipbuilding, regional developments, etc.), and although their scope cannot be described in precise quantitative terms owing to the lack of adequate statistics, it is the opi-

(30) Presidential Decree No. 2387 of 24th December, 1952. Law No. 1846 of 7th December, 1952 continued until 14th July, 1954 the authority for the Government to refrain from fully applying the new « general tariff ».

(31) In particular the duties on farm products and food-stuffs were reduced from a general average rate of 24 per cent to one of 16 per cent where there were agreements; and in similar cases those on manufactured goods were brought down from 32 to 24 per cent. See S. PARBONI, *Italy's Tariff Agreements at Torquay*, in No. 17 of this Review for 1951, pp. 84 ff.

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nion of experts which have come of the whole country has been far from alleviations in the concrete need of categories of products thus certainly a letter. Amongst visions that are

(a) Imports of equipment for oil prospecting have been exempt from duty since 1926 (34). This provision has become especially important in this post-war period in view of the development of prospecting and the discovery of new fields of petroleum and natural gas. Thus, for example, the equipment imported for the construction of the Cortemaggiore installations benefitted from this exemption.

(b) The Saragat Law (35) which contains numerous provisions for facilitating the reconstruction of the Italian merchant marine prescribes amongst other things that imports of materials and equipment necessary for shipbuilding shall be exempt from duty.

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9. — The present tariff position, resulting from the measures described above — but leaving out of account the alleviations described in par. 8, not easy to be listed — may be summarised in broad outline as follows:

(a) A large fraction of the items in the tariff, numbering *about 2,200* (36), are subject to the transitional rules. As was said above these fix the duties half-way between 11 per cent representing the old tariff of specific duties

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(35) No. 75 of 8.3.1949.

(36) As has already been mentioned the new Customs tariff contains a total of 5,237 items.

method) is admittedly in principle open to serious objections, especially since the higher the duty on any given commodity, the lower the value of imports of that commodity will usually be, and the lower also, therefore, its « weighting » in the calculation of the average. In the particular case of Italy however the « weighted average » has some significance as a measure, in as much as the decline in the effective tariff rates has not only been very marked but has also been accompanied by an unprecedented expansion in imports of all categories of goods (26). In real terms indeed the value of 1952 imports was more than twice the value of 1938 imports.

The present low level of the effective rates of duty is due to the alleviations which, as previously mentioned, the Government applied from 1950 onwards in reduction of the « general tariff », thereby producing the « working tariff ». In reality the « general tariff » has been regarded as a « ceiling » to be used in bargaining, and to be applied only in the last resort. The effective duties could rise to equality with those of the « general tariff » or could remain below them: this was to depend on circumstances such as Customs policy in the United States and the British Commonwealth, the results of international agreements and conferences, fluctuations in the level of business, and so forth. The « rules of first application » laid down what criteria were to be followed in determining this « managed » application of the tariff; and they expressly referred to the state of markets, to the supply situation, and to the needs for consumption and for the re-equipment of the country's economic system.

In the summer of 1950, in particular, a number of considerations made it desirable to have the duties at a *moderate* level. The chief need at that time was to counteract the inflationary pressure let loose by the Korean war; and that pressure would have been made stronger if the « general tariff » had been fully applied. Moreover, important negotiations on

(26) One item which contributed a good deal towards bringing down the ratio between Customs revenues and the value of total imports was grain: the duty on this is at present « in suspense », as there is still a Government monopoly of imports. Another item was iron and steel products, on which the tariff protection has been cut by nearly a half as compared with before the war.

Customs policy were in prospect, including the Torquay Conference and talks with a view to bilateral agreements with France and Switzerland. There would thus have been no point in applying the high rates of the « general tariff », only to return a few months later to the moderate rates set forth in the agreements.

The following paragraph lists the main alleviations which were allowed.

7. — (a) Mention must first be made of the « temporary rules of first application », which came into force on 15th July, 1950 at the same time as the new « general tariff » (27). *Apart from certain limited exceptions* these rules laid down that, where the new duties were greater than 11 per cent ad valorem, the duty applied would be the mean between 11 per cent and the duty in the new « general tariff ». The higher the new duty, the greater the cut. This was called the « Vanoni formula » after the Minister who proposed it (28). The basic idea was that from 1947 onwards the general average of the specific duties under the 1921 tariff should amount to not more than 1 per cent *ad valorem*; and this, added to the 10 per cent licence fee, made a total of 11 per cent.

These « temporary rules » were meant to remain in force until 15th July, 1951. In fact their validity was extended for periods of six months at a time, subject to a few amendments which need not be described in detail (29). At the present time (Autumn 1953) they are still

(27) Presidential Decree No. 453 of 8th July, 1950.

(28) The duty to be charged is found from the following formula:

$$d = \frac{D + 11}{2}$$

where *d* is the duty to be charged, and *D* is the duty under the new « general tariff » (see the Records of the Italian Senate, Draft Laws and Reports, Report by 5th Parliamentary Commission No. 2458-A).

The system which was devised for softening the effect of the new general tariff was certainly not free from faults. It was no doubt desirable to avoid or at least reduce excessive tariff protection at a time when prices were rising. This however was apt to change the relation between the duties charged on products which were linked, for example, through the fact that they were used in successive phases of the same production process. This gave rise once again to the danger of tariff anomalies between different products which the Government had sought to obviate by abolishing the licence fee.

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nion of experts that the volume of imports which have come in duty-free in consequence of the whole complex of provisions of this kind has been far from negligible. And indeed the alleviations in question were designed to meet the concrete needs of certain well defined categories of producers or of certain areas and were thus certainly not intended to remain a dead letter. Among the most important of the provisions that are still in force are the following:

(a) Imports of equipment for oil prospecting have been exempt from duty since 1926 (34). This provision has become especially important in this post-war period in view of the development of prospecting and the discovery of new fields of petroleum and natural gas. Thus, for example, the equipment imported for the construction of the Cortemaggiore installations benefitted from this exemption.

(b) The Saragat Law (35) which contains numerous provisions for facilitating the reconstruction of the Italian merchant marine prescribes amongst other things that imports of materials and equipment necessary for shipbuilding shall be exempt from duty.

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9. — The present tariff position, resulting from the measures described above — but leaving out of account the alleviations described in par. 8, not easy to be listed — may be summarised in broad outline as follows:

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plus the licence fee, and the new general *ad valorem* tariff.

(b) Certain categories of goods, comprising *some 500 items*, enjoy preferential tariff treatment under special arrangements. These are goods of special importance for supplying the country's markets or re-equipping its economy, such as cereals, flour imported by or for account of the Government, and machines for use in farming and industry.

(c) Next there are the duties governed by agreements, covering *about 1,200 items*. These are not subject to the transitional rules, and their level is governed by the terms of conventions such as those of Annecy or Torquay, and of agreements such as those with Switzerland and France.

(d) On *about 1,200 further items* the duties are governed by agreements, but are applied at rates lower than those agreed.

(e) On a group of commodities mainly of a luxury character, and *about 200* in number, the duties in the «general tariff» are in force.

(f) Finally, most of the duties are subject since 1st November, 1951 to the 10 per cent reduction mentioned above (37).

The general result is that the «temporary rules for alleviation» have not lapsed, but have been maintained and extended (38), thereby producing a «working tariff» at a relatively moderate level (39).

Admittedly it cannot be said that this «working tariff» has been inspired by the

(37) Unfortunately the cumulative effect of the successive measures has produced discrepancies and structural maladjustments as between the levels of the different duties, and the industrialists concerned have not failed to criticise this aspect.

(38) A few categories of goods form exceptions to this otherwise general tendency, the only important ones being steel products and cutlery. In both cases the duty was raised from the very low level resulting from the unilateral reductions to levels fixed by agreements, which were closer to those in the «general tariff».

(39) It has moreover been claimed by industrialists that «at any given figure the protection afforded by Customs duties in Italy is much less than that in other countries, because a large part of the duty merely takes the place of the indirect taxes charged on goods produced in Italy». They go on to argue that, if the effect of the duties is to be measured on a realistic basis, they ought to be «split into two parts so as to isolate that part which has a purely fiscal purpose as a substitute for indirect taxes, unless it is possible to change our fiscal system so that the taxes shall be levied on the finished product» (Statements made to «Il Globo», 26th March, 1953 by Dr. Costa, the President of the Confederation of Industrialists).

theories of those who regard tariffs as justified only as a means of giving protection to infant industries. Broadly speaking the duties have rather been determined by reference to the different levels of costs as between the Italian producers in the various sectors of the economy and their foreign competitors. In order to «measure» these costs an attempt was made to calculate some rough average of the costs of single enterprises, assuming that this average could be taken as «the» cost of the «industry» or «branch of farming». That method may perhaps not be approved by economic theorists, who may argue that it is just a convenient way of protecting the marginal and least efficient producers with the highest costs. Against this must be put the facts and considerations that have already been set forth. On the other hand, the heavy increase in Italy's imports in 1952-53, the disquieting growth in the deficit in her balance of trade, and the pressure on her foreign exchange reserves, would seem to show that the new Customs tariff has not insulated industry and farming in Italy from the effects of international competition.

10. — Indeed, since 1950 Italy's international position has seriously deteriorated. In the first number of this Review for 1953 (40) we referred to the crisis in the Italian balance of trade. Elsewhere in the present number of the Review Dr. Carli resumes the story (41); he shows that there are even more disturbing prospects in sight, and he extends the study to include the balance of payments. Here it may suffice to say that in the first nine months of 1953 Italy's position in the E.P.U. further worsened, and she became a debtor country with a net cumulative adverse balance of \$ 40.8 million at the end of September. The overall deficit in the balance of trade has remained about the same at 363,000 million lire for the first seven months of 1953, as against 372,000 million in the corresponding period of 1952.

In face of the deterioration in Italy's international position there has been an increasing tendency, of which Dr. Carli's article is one example, to doubt the appropriateness of con-

(40) See G. PIETRANERA, *loc. cit.*, pp. 44 ff.

(41) See G. CARLI, *The Italian Balance of Payments Problem*, pp. 151 ff. of this number.

tinuing a commercial policy which is generally liberal in character. Indeed up still now Italy's measures for liberalising imports and lowering Customs duties have not been reversed, and the authorities have resisted the pressure of interested groups which urged them to take this step. This attitude is however, conditioned by the hope of finding a solution in terms of more positive action on the part of the other E.P.U. countries towards the abolition of restrictions. In other words Italy, rather than readjusting her own liberalisation quotas and protective system in a definitely restrictive direction, has preferred to try to persuade other countries to come into line, so that the balance may be restored at the highest possible volume of international trade. That incidentally is the course advocated by the O.E.E.C. On the other hand, the re-orientation of Italy's productive system along more rational economic lines cannot be exclusively left to the impact of foreign competition, but has to rely on a closer international cooperation (42).

In face of the continuation of restrictive tendencies in other countries, it is no wonder that authoritative voices have been raised of late in Italy to demand more vigorous defence of her interests. Some action is indeed urgently needed to stop the rot. And since the crisis in her trade balance (and the weakening of her foreign exchange position) has manifested itself in 1953 in the shift of the deficit from the dollar area to the E.P.U. area, and since there can be no denying the influence on this

(42) The Ministerial Report appended to the text of the «enabling act» of 1949 expressed a very clear view on this matter; the essence of it is contained in the following passage: «At least so long as limitations on the movement of people make it impossible to spread the labour force throughout the world in a way which corresponds to the distribution of natural resources and capital, the economy of any country must be regarded as though it were a large firm, in which if the raw materials coming from abroad are excluded, all the expenses both for consumption and for investment amount to a constant cost, which can in practice be reduced only in a highly limited degree. It will thus be seen that within a country's economy the margin of economical working can be stretched much further than people usually think; and that many forms of production and activity which can be conducted only if they have some kind of support, protection or subsidy need not at all be regarded as uneconomic from the national point of view. On the contrary, they are worth preserving and even expanding, because they make an addition to the real income stream which would not otherwise take place, without, however, adding anything or much to the total economic and social costs which the country bears».

development both of liberalisation and of tariff reductions, it is inevitable that the courageous commercial policy which Italy has hitherto followed should become the subject of renewed discussion, and that at least partial readjustments may have to be expected in the near future.

IV - Steel Duties and the European Coal and Steel Community.

11. — Three sections of the Italian Customs tariff have for a long time been the subject of special attention among economists and technical experts. These are the sections comprising the duties on iron, on grain and on sugar, which are regarded as the three corner-stones supporting the whole edifice of our tariff system. The debates were long and keen between the liberal school of Italian economists (Einaudi, Jannaccone, Umberto Ricci, etc) on the one hand and producer groups and Government departments on the other. These discussions gradually died down, however partly because the tariff eventually came to be regarded as a lesser evil by comparison with the jungle of quota restrictions and controls that had by degrees been introduced.

The problems of grain and of sugar were discussed in an article which was published in this Review in 1950 (43). We shall not go over this ground again, because the position has not substantially changed since then. It may however be of interest to refer briefly to the problem of the duties applied to iron and steel products.

(43) PAOLO ALBERTARIO, *Italian Agriculture in the Framework of the New Customs Tariff*, No. 14 of this Review for 1950, pp. 181 ff.

Under the Annecy Convention a rate of 30 per cent was laid down as the duty on grain. A clause was added limiting the margin of variation of the price of home-grown grain and of imported grain, in the sense that it should not rise more than 15 per cent above the price in the previous crop year, nor fall more than 20 per cent below it. At the moment, however, the price of grain in Italy is protected not by the Customs tariff but by the «quota collection» system and by the Government monopoly of imports. The grain imported by the Government is of course free of duty.

In the 1952-53 crop year there was a record grain harvest of 88 million quintals. Of this amount the Government obtained 16 million quintals at the official price of L. 6,800 or \$ 10.90 per quintal. The existence of the import monopoly makes it easy for the Government to control the price of the grain which is not officially collected but is sold on the free market. Such grain amounted to about 35 million quintals in the 1952-53 crop year. Out of the remainder of the crop, 28 million quintals

As is well known, the iron and steel industry in Italy grew up under the umbrella of high Customs protection. It was born late by comparison with the industry not only of Great Britain but also of Germany. It was also at a clear disadvantage because Italy had little or no iron ore and coal, while the poorness of the Italian market ruled out mass production, with the lowering of costs which that makes possible. That is why the Italian iron and steel industry needed strong Customs protection to put it on its feet. That protection was in fact given to it by the 1887 tariff. This however at once brought out a problem which was later to become of fundamental importance, namely the effect on the engineering industry of the protection given to the iron and steel industry. For the protection of iron and steel raised the costs in engineering.

This problem was already acute before the First World War. Even then many people used to wonder why the engineering industry did not rebel against its fate. At the time when Italy definitely embraced protection in the 1887 tariff the iron and steel industry was much more powerful than the engineering industry, which was then in its infancy and had a structure based largely on craftsmen's workshops. It was in the early years of the twentieth century that engineering forged ahead. Even then, however, it seemed quite unreal to hope to export to international markets against British and German competition. It was in fact thought a great achievement if the foreigner could be kept out of Italian markets. By com-

were kept by the farmers for consumption by themselves and their families, and 9 million were retained for sowing.

For certain typical years the rate of duty on grain has been calculated as follows:

| | Per cent |
|----------------|----------|
| 1913 | 41.5 |
| 1927 | 27.0 |
| 1931 | 144.0 |
| 1938 | 57.42 |

1931 was a year of depression, in which protection against foreign competitors was carried to an extreme. (Sources: For the years 1913 to 1931, H. LIEPMAN, *Tariff Levels and the Economic Unity of Europe*, London; for 1938, Report by the Economic Commission of the Ministry of the Constituent Assembly; monograph by Prof. M. BANDINI).

A clear statement of a liberal view on the grain problem can be found in GIUSEPPE DE MEO, *Aspetti quantitativi della politica granaria italiana*, loc. cit. Another appears in an article by E. ROSSI, *Ferro, grano, zucchero*, in the weekly *«Il Mondo»* of 19th November, 1949.

parison with that danger the higher prices were a lesser evil. It suited the engineering companies not to attack the steel producers, but to buy high-price steel from the protected Italian steel industry, and then, with the support of the steel producers, to ask the Government for Customs protection so as to preserve at least the Italian market (44).

At a later stage the engineering industry became the largest in Italy, outstripping even textiles. In 1937 it employed 675,000 persons, and the capital invested in it in companies other than craftsmen's shops was put at 18,400 million lire. At that time the textile industry had less than 600,000 workers, with capital of Lire 14,000 million; and the iron and steel industry employed 103,000, with capital amounting to Lire 7,000 million (45).

Since the late war it is precisely in the engineering industry that those concerned have placed their greatest hopes of increasing exports, and of thereby absorbing the unemployed. However, if the engineering industry is to be able to expand and to export, it must be able to acquire its raw materials at competitive international prices. That is the problem which has existed for many years. To resolve it a plan has been initiated which is called the «Sinigaglia plan» after the name of its author. The plan provides for radical reequipment and rationalisation in the iron and steel industry; and it is hoped that this

(44) The economic literature of the period shows that at that time the engineering industry thought almost entirely in terms of the home market, and not of exports. See for example what was said by UMBERTO RICCI in 1920 in a paper which he read before the Roman Liberal Association, and which is reported in the book *«Dal Protezionismo al Sindacalismo»*, Bari, Laterza, 1926, p. 51: «... the ironmaster says to the machine builder: "It is all very well that you should have the advantage of getting your iron and steel outside Italy. But if you buy from me instead, and this makes your goods dearer to produce, I will see that you get the Italian market, because I will see that high duties are put on the cheaper foreign machines"». This same article by Ricci contains a select bibliography. He refers in particular to the paper which was read by Prof. JANNACCONE to the «Società Italiana per il Progresso delle Scienze» at the Milan Congress held in April, 1917. This paper deals with the relations between the iron and steel and engineering industries.

Readers may also refer to Ricci's article *«Le industrie siderurgiche e meccaniche»*, published in the book *«Protezionisti e Liberisti italiani»*, Bari, Laterza, 1920, p. 19 ff.

(45) See the Report on Industry by the Economic Commission of the Ministry of the Constituent Assembly, Volume I, pp. 212 and 293.

will enable the industry for the first time to meet international competition (46). The task is difficult, partly because of the social repercussions which it entails. The difficulty has been recognised by the European Coal and Steel Community, which has agreed that the work of completely eliminating Customs protection as required under the pool arrangements may be spread over five years.

(46) See O. SINIGAGLIA, *The future of the Italian Iron and Steel Industry*, in No. 4 of this Review for 1948, p. 240 ff.

According to recent information it would appear that up till now the Government has invested 132,000 million lire in reequipping the state steelworks, and has provided 21,000 million to assist the private works. (Statements made to the Chamber by Signor Vanoni, the Minister of Finance, at the session on Tuesday, 29th September).

At the moment the duties in force in Italy for iron and steel products are those agreed at Annecy, varying between 10 and 23 per cent (see Table I). These rates are subject to a reduction of 10 per cent when applied to countries that are members of the European Coal and Steel Community. This reduction will remain in force until May, 1955; and thereafter it will be increased in successive steps until the protection vis-à-vis the members of the Community is completely eliminated in 1958 (47).

(47) Even those authors, who severely criticise the Government, which they accuse of having remained «the slave of a protectionist mentality», have been obliged to recognise the courage with which the Government is trying to arrive at a solution of this long-standing problem. See for example E. ROSSI, *loc. cit.*