

The Italian Tobacco Industry: A State Monopoly

by

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Origin and Structure of the Monopoly.

1. — The present Government Monopoly for the production, sale, and importation of tobacco in Italy is the improvement and development of a system that had shown itself to be the most profitable to the tax Administrations in the several States into which the Peninsula was divided prior to 1861. In 1862 it was set up by decree as the general settlement for the whole of the newly established Kingdom of Italy, and until 1868 it was operated directly by the Government Administration. In 1868, after laborious experiments had been made to co-ordinate dissimilar activities and varying degrees of progress, the monopoly was assigned to a private chartered company under a special arrangement for the sharing of the profits (*Regia cointeressata*). This experiment gave negative results as far as the State was concerned, and in 1884 the Government again took the Monopoly over definitely and placed it under the management of the General Direction of Excise Taxes.

In 1893 a special General Direction of Monopolies (*Direzione Generale delle Privative*) was set up, which emphasised the industrial character of the business. It was finally transformed, in 1927, into the present Autonomous Administration of Government Monopolies (*Amministrazione Autonoma dei Monopoli di Stato*), an autonomous concern owned by the State to which is entrusted the production and sale of tobacco, salt, and quinine, and the management of the monopoly of cigarette papers, matches and lighters.

2. — The legal figure of the present Autonomous Administration is a peculiar one. It

is difficult to find a formula which defines it accurately. It differs from other Government Administrations in some particulars. It has its own budget, separate from that of the Government, a Board of Directors of its own, and a special roll for its staff. But its "autonomy" is limited by regulations which are typically bureaucratic; thus its book-keeping, all acts of administration, the status of the staff are subject to rules similar to those which hold good for the working of the other Government Administrations. The composite character of the existing solution is reflected in the position of the administrative organs. The Head of the Autonomous Administration of the Monopoly is "the Minister of Finance assisted by a Board of Directors and helped by a Director General". The Director General is vested with autonomous powers, which, however, vary with the value and the quality of the matters dealt with; those of most importance are assigned to the Board of Directors presided over by the Minister of Finance, or by his deputy, consisting of nine members (the Director General, six high public officials and two private citizens). To become executive, the decisions of the Board must be approved by a separate act of the Minister's who is not bound by them but is legally free to take decisions of an opposite nature. This means that the Board is, substantially, an advisory body and the real power is vested in the Minister. The procedure is a special one, which requires too frequent recourse to Ministerial Decrees and which subjects action to laborious practices and bureaucratic controls. The administration would be excessively slow were it not for a provision which enables the Director General to take

decisions in cases of urgency, which he afterwards reports to the Board. This facilitates the working of the Administration, but it raises other delicate problems of responsibility and juridical complications which tend to make its use a cause of friction. The need is therefore felt of a thorough reform which would free the Administration from the fetters of the usual bureaucratic methods and provide it with an organisation modelled on the more elastic systems used by industrial and commercial concerns.

3. — The organisation of the tobacco branch of the Monopoly — which at the sales end is the same as that regulating the other minor branches (salt, quinine, cigarette papers and tubes, matches) — is as follows:

— 10 Regional Directions (*Direzioni Compartimentali*) for the cultivation of the tobacco, which watch over the progress and control the production of the plantations and the preparation of the tobacco as a raw material for industry. Production and preparation are carried out by about 1000 private concessionaires. The Monopoly also has 15 Agencies (*Agenzie*) through which it attends, as do the concessionaires, to the cultivation and preparation of the tobacco. These Agencies enable the Administration to secure, through its own direct services, all the data it needs for fixing the prices to be paid to the concessionaires for the several qualities of tobacco.

— 19 tobacco factories for producing tobacco for smoking (4 others located at Pola, Fiume, Rovigno d'Istria and Zara have now passed, under the peace treaty, to Yugoslavia);

— 22 depots for manufactured tobacco where the output of the factories is centralised, and from which the tobacco is withdrawn by the sales offices and stores;

— 604 offices (managed directly by the Monopoly) and stores (managed by private contractors) for selling tobacco, which they withdraw from the depots and supply to the retailers;

— some 47,000 retail shops (private contractors) for the sale to ultimate consumers;

— 23 zone offices to attend to commercial organisation and administrative supervision.

The Monopoly has on its pay-roll for the production of its manufactures and for the distribution of the products to the stores, more than 2,500 employees and 28,000 workers—most of whom are assigned to the tobacco branch—and who represent about 8 million days of work per annum, and it gives work indirectly to several tens of thousands of persons engaged in the distribution and retail sale and transport of tobacco. Nor does this take into account all the work arising for the subsidiary industries producing machinery, equipment, paper and cardboard packing, transports, etc.

Agricultural Production.

4. — In the first stage of the use of tobacco in Italy, when consumption was limited to snuffs, the production of Italian plantations was sufficient, as dark tobaccos, suited for their manufacture, were easily acclimatised in the Peninsula.

But when the habit of smoking became in the ascendant, and the acclimatised tobaccos were found ill-suited or unsuitable, a large import trade with the Americas (United States and Brazil) grew up for dark cigar tobaccos and pipe tobaccos and with the countries of East Europe (Greece, Bulgaria and Turkey) for light and cigarette tobaccos.

If the cost of these imports could be supported, even by a country economically poor, when consumption was of limited volume, they represented a real problem for the Italian balance of trade in the second half of the XIXth century.

The government organisation of the Monopolies showed itself no less capable and enterprising than private initiative in facing this situation.

In 1895 it opened the Experiment Station for Tobacco Cultivation at Scafati (Salerno), the forerunner of a whole series of similar institutions which have since spread all over

Europe, for the purpose of making scientific research and practical experiments to solve the difficult problem of acclimatising in Italy the more valued varieties of sub-tropical tobaccos of the Americas and of East Europe, as well as some tropical varieties.

The work of well-known scientists led to two important results: (a) the acclimatization in Italy of the varieties of tobacco for which the industrial demand was greatest; (b) the creation, as the result of crossing and hybridization, of typical varieties of tobacco suited to the conditions of soil and climate in Italy and possessing characteristic properties substantially very similar to those of the tobaccos of America and East Europe.

This scientific and technical program was carried out first in the experiment stations, and then in the tobacco plantations, over a period which lasted more than a quarter of a century, and it was beginning to meet with the long expected success only a few years after the first world war.

5. — In 1913-14 the area planted to tobacco in Italy was barely 6,811 hectares, with a production of less than 9,000 metric tons. Consequently the volume of imports amounted to no less than 25,000 tons per annum. Altogether, more than 72% of the tobacco then came from abroad, and this percentage had risen during World War I, until it stood at 81 per cent in 1920.

From that year on the new stage in the development of home grown tobacco began, with the results summed up in Table I.

By these means, and thanks to the steady growth of the quantity and improvement of the quality of Italian tobaccos, their use in the manufacture of the several products rose from 18.80% in 1921 until it touched a maximum—under the influence of autarchik policies and of World War II—of 94.8% in 1941.

The change from foreign to Italian tobacco was one which called for the use of very skilful technical devices to avoid endangering the traditional characteristic qualities of the smoking mixtures, and it entailed, of course, some sacrifices on the part of the smokers.

TABLE I
TOBACCO PLANTATIONS AND PRODUCTION IN ITALY

Crop Year	Crop Area (hectares)	Production	
		metric tons	Index numbers (1938=100)
1913	6,811	8,928	220
1921	18,859	19,924	49.2
1926	35,975	45,777	111.8
1931	40,346	45,810	113.1
1936	30,887	40,829	100.8
1938	31,258	40,490	100.0
1939	34,145	43,198	106.6
1940	39,119	51,276	126.6
1941	45,760	53,539	132.2
1942	39,520	48,576	119.9
1943	37,831	33,484	82.6
1944	27,303	23,513	58.0
1945	22,483	17,092	42.2
1946	42,961	43,318	106.9
1947 (a)	58,000	69,000	160.5

(a) estimates.

6. — With the development of Italian tobacco plantations, a new and notable export trade grew up, which succeeded in reversing the previous situation as regards weight and in markedly reducing the adverse balance as regards value (see Table II).

TABLE II
ITALY'S IMPORTS AND EXPORTS OF UNMANUFACTURED AND MANUFACTURED TOBACCO

	1920-25	1932-38
WEIGHT (m. tons):		
Imports	132,146	15,682
Exports	14,761	25,296
Deficit (—) or surplus (+)	— 121,385	+ 9,614
VALUE (000 lire):		
Imports	1,698,546	315,477
Exports	125,069	190,770
Deficit (—)	— 1,573,477	— 124,707
(as a percentage of the total deficit of the Italian balance of trade)	(3.20%)	(1.11%)

7. — The peak production of 1941 was due to the growth of consumption under the stimulus of war, to the exasperation of autarchik policies, to the impossibility for the Monopoly to obtain supplies from overseas, and to the ex-

ports to European countries, unable to secure supplies from their traditional markets in North and in South America, but as the war proceeded an inevitable shrinkage followed. This was due to the lack of labour, the need of using the land for food-crops, the absence of the requisites required for the plantations. Lastly, in 1943-44 and 1945, military operations prevented the cultivation of a large part of the area and caused large-scale destruction of buildings and equipment.

But as soon as South-Central Italy was liberated, the Autonomous Administration of the Monopolies set to work energetically to secure the revival of the cultivation of tobacco.

Special subsidies were granted—of as much as 80% of the cost—for the reconstruction of the farm and industrial buildings used for curing and handling the tobacco; the payment of these subsidies was spread over eight years, and was given in the form of a sur-price paid for the tobacco delivered, thus compelling the farmers to produce the largest quantity possible during the eight years so as not to lose the subsidy. Another subsidy was granted to concessionaires who had suffered most severely from the war by majoring the prices paid for their tobacco by as much as 18% of the said price during five years, thus again encouraging production. Moreover, the prices for tobacco were fixed at remunerative levels so as to make its cultivation desirable and enable the planters to overcome the difficulties in securing supplies of the several requisites consequent on the war.

The former Experiment Stations were amalgamated into one single Scientific Experiment Station for Tobacco, endowed with adequate means (1). The new Institute has thus been able to undertake studies to repair the losses caused by the war to the quality of the tobacco, and to secure, by further selection and hybridization, those varieties which it had taken 25 years of research and work to produce and which in the chaotic years of military operations had been lost or had degenerated.

(1) It has been assigned on each kilogram of tobacco produced in Italy 0.50% of the price, the cost being charged to the concessionaires.

The progress of the plantations from 1945 to 1947 is shown by Table I. Indeed, in three brief years the problem of quantity has been solved, and that of quality is now being solved as next year the selected seed of all the varieties formerly obtained will again be available in the quantities required for renewing all the plantations.

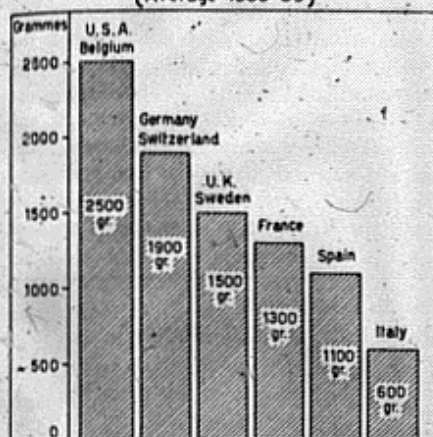
The success of this effort should claim attention. The spirit in which the Authorities have faced the problem of securing the revival of production has been practical, efficient, and timely; and it has not allowed itself to be hindered by indulging in anti-economic fancies, clinging to artificial prices which discourage production. In a certain sense, it has practically compelled the planters to cultivate tobacco intensively so as to enable the Monopoly to exploit a source of revenue from which rapid and easy yields can be obtained at a time of unprecedented financial difficulties, aggravated by the disorganization of the other forms of taxation caused by the war. It is however to be regretted that a like unprejudiced policy has not been adopted when fixing the sales prices to the consumer, prices which, as we shall see, could have been raised to much higher levels so as to secure the highest possible fiscal yields.

Production and Consumption of Manufactured Tobacco.

8. — The consumption of tobacco in Italy has always been a limited one, fluctuating around a minimum per capita of 530 grammes in 1913-14 and in 1934-35, and a maximum of 723 grammes in 1921-22 and 731 in 1927-28. The general per capita average for the quinquennium 1935-39 is reckoned at 600 grammes, about half the figure for France, one third of that for Germany, one fourth of that for the United States in the same period. This limited consumption is another index of the low standard of living of the Italian people and matches the low consumption of high quality foods (sugar, meat, fats, etc.) (2).

(2) The minor part played by foods of high quality in Italian pre-war diet as compared with that of other countries is evi-

Chart I—TOBACCO AVERAGE CONSUMPTION PER CAPITA IN SOME COUNTRIES (Average 1935-39)



But in any case, in Italy, as in all the other countries of Europe, the consumption of tobacco increased rapidly after World War I. There was a shrinkage during the depression of 1930-34, followed by a new expansion. As always occurs in time of war, the consumption of tobacco again increased during the second world war, and those years therefore represent an exceptional interlude. The apex was reached in 1941-42 when consumption increased 35 per cent as compared to the pre-war figures. War difficulties however prevented production from keeping pace with the growing consumer demand; the tension between supply and demand became more marked and made rationing necessary (October 1943). The rationing régime which excludes boys under 19 and women is still in force. This stage corresponds

described by the following table (see G. De Marzi, *A Survey of Cereal Consumption in Italy*, etc., in the *FAO Review "Food and Agriculture"*, 1947, N° 2, p. 97):

Products	U.S.A.	Canada	England	Italy
Cereals	27.6	30.8	30.1	61.1
Fats	15.4	14.8	17.1	11.6
Sugar	15.6	15.9	15.9	3.6
Meat & eggs	16.3	16.4	19.4	4.9
Various	25.1	22.9	17.5	18.8
	100.0	100.0	100.0	100.0

to the crisis of production, followed by the work of reconstruction, as shown by the slump of sales (in 1944-45) to a figure below that for the distant years of 1913-14, and then by the rapid recovery of sales which now exceed by 10% those for 1938-39. These ups and downs are shown in the series of data collected in Table III.

TABLE III
CONSUMPTION OF MANUFACTURED TOBACCO IN ITALY

Fiscal Year	Monopoly Sales of Manufactured Tobacco			Average Tobacco consumption per capita (gr.)
	Total sales (m. tons)	Index numbers of total sales (1938-1939=100)	Ratio of cigarettes to total sales %	
1913-14	18,638	64.1	19.47	530
1921-22	27,919	96.0	39	723
1927-28	39,909	103.9	48.5	731
1932-33	24,040	82.7	52.1	586
1936-37	25,570	87.9	59.7	637
1937-38	27,595	94.9	61.6	634
1938-39	29,060	100.0	63.7	661
1939-40	32,137	110.5	66.2	710
1940-41	33,655	115.8	68.1	744
1941-42	38,550	132.6	68.1	845
1942-43	36,442	125.4	—	798
1943-44	27,800	100.0	—	(b)
1944-45	17,307	69.5	57	(b)
1945-46	21,262	73.1	59	(b)
1946-47	28,223	97.1	67	(b)
1947-48 (a)	31,450	108.2	75	—

(a) estimates; (b) not available, owing to the impossibility of calculating the "black" supplies derived from plundered stores or from Allied sources.

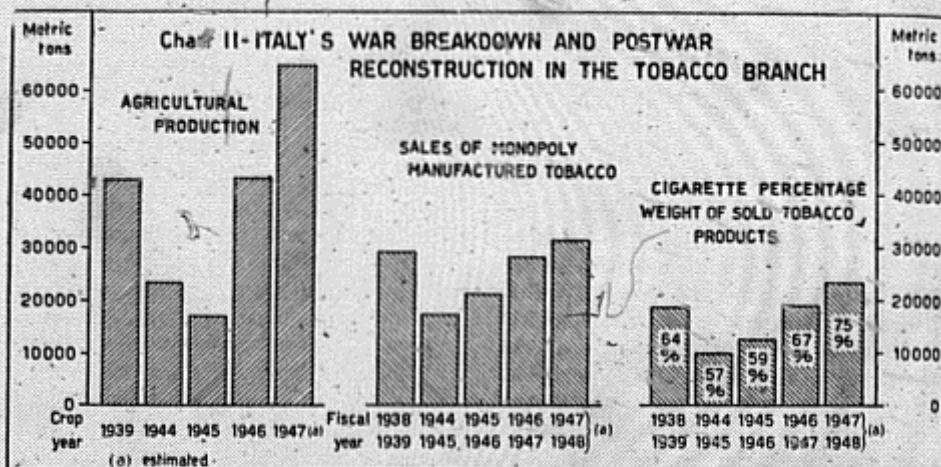
9. — The Administration of the Monopolies, which ever since 1942 had been able to manufacture with its industrial equipment the whole of the supplies required by consumers, found itself from 1943, when the war was being fought on Italian soil, in a really alarming situation.

At the beginning of 1945, of the 23 factories working in full efficiency before the war, one had been razed to the ground, 4 were half wrecked, 8 others had suffered partial losses, 1 was requisitioned by the allies to be used as a barracks, 4 had come under the control of Yugoslavia. Taken as a whole, 40

per cent of the factory buildings were destroyed, and destruction on a like scale had been suffered by the machinery and equipment.

The stocks of unmanufactured tobacco, which amounted to more than 110,000 m. tons before the war, had been plundered and reduced by 60 per cent (to 45,000 m. tons); a very serious loss when we remember that to produce good quality tobaccos one should have on hand stocks amounting to three year production.

steps were taken to secure tobacco from several foreign countries while awaiting the results of the work started for reviving the cultivation of tobacco in Italy. With this end in view, negotiations were started, sometimes through the agency of third countries, with Turkey, Greece, Bulgaria, Brazil, and the United States, and led to imports under clearing agreements, and to considerable purchases in the United States financed by a 5 million dollar loan granted by the *Export-Import Bank*. These imports allowed the Monopoly to draw on the stocks it



At 1946 prices the total capital losses suffered by the Administration of the Monopolies (inclusive of the salt branch of the business) had been estimated at some 120 milliard lire.

When in April 1945 the Autonomous Administration was once more unified, all that remained available was set to work. The outlook was discouraging. Five months later, in August 1945, it was ascertained that when working in full the monthly output of the factories only amounted to 1,905 m. tons (79% of the average pre-war monthly sales).

Special efforts were made and all kinds of makeshift means were availed of, to reconstruct the buildings and the depots, set the damaged machinery in motion, construct new machines, reequip the auxiliary workshops, secure supplies of the necessary raw materials. Thus,

had in hand as from the end of 1945, thus accelerating the output of its manufactured products.

At the same time, the labour force also began working again on the former piece work system, i.e. at the same rate of production as in the pre-war period—a unique case in the industrial record of post-war Italy—and when necessary over-time and night work were resorted to.

This work of material and moral reconstruction, and the resumption of international relations, which coincided with the aforesaid action taken to stimulate the cultivation of tobacco in Italy, resulted in a steadily marked increase in the production of the factories.

From 1,905,516 kilograms per month obtained in August 1945, production was gra-

dually raised to 2,850,571 kgs in September 1947 (corresponding to an annual output of 34,207 tons). An increase of nearly 50% was thus obtained in the course of two years. In the Spring of 1948, the abolition of the rationing of electric power and the delivery of new machinery will enable the Monopoly to produce more than 3.1 million kilograms per month, equivalent to an annual output of over 37,200 tons and to 800 gr. per head (on the supposition that the Italian population amounts to some 46.5 million inhabitants). In other words, in spite of the complete loss of the 4 factories which have passed over to Yugoslavia, and the enormous losses above mentioned, the Monopoly will be producing 29% more than it sold in 1938-39. When this margin is attained, rationing will be abolished and the free sale of the products will be resumed.

In any case, in the space of two years the volume of manufactured tobaccos placed on the market by the Monopoly has increased 68%, from 17,307 m. tons (1944-45) to 28,220 (1946-47). The ration has grown contemporaneously from 20 grammes per week at April, 9, 1945 to 30 grammes in November, 19, 1945, to 40 grammes in November, 4, 1946, and 45 in October 1947.

It should be added that the ratio of cigarettes to total output has been steadily growing, rising from 57% in 1944-45 to 59% in 1945-46, and 67% in 1946-47. During the fiscal year 1947-48 the ratio will rise to 75%. The fact that the increase secured is due above all to the output of cigarettes—for which special premises and machinery are required—rather than to that of cigars, made by hand, and pipe tobacco which call for simpler equipment, is another index pointing to the success of the work of reconstruction (3).

I believe that such results, secured under the very difficult conditions existing in post-war Italy, would do honour to any great industry.

(3) The steady rise in the quota of cigarettes, while entailing great changes in the working methods and therefore in the structure of the tobacco business, shows a decided evolution in the taste of the smokers in favor of the more delicate and profitable products.

10. — Recovery in the export branch of the business has so far met with very serious difficulties. Apart from our present scarcity of raw materials, the most serious obstacle is found in the impoverished conditions which induce the European countries to forbid imports of non-essentials; moreover, Italy's fundamental market, that of Germany, has been entirely lost.

The Monopoly is however seeking for new markets on which to start sending its products, even if only in small quantities for the present.

It has already been possible to export some of our manufactured tobaccos to the United States, Egypt, Panama, Argentina, Luxembourg, South-Africa, Belgium, Austria, Switzerland; arrangements with the United States and with Austria are being considered for the export of unmanufactured tobacco. The export of cigars would be particularly desirable as their manufacture requires a lot of labour, but that branch of the business is the one now almost everywhere inexorably hampered by a high protectionist system (4).

Fiscal Yield and Pricing Policy.

11. — A substantial feature of the Monopoly is the revenue it assures to the Government. Under the system in force since 1927, the gross receipts from sales are divided into two parts of which one is assigned to the Autonomous Administration wherewith to meet all the costs of production and sale, and the other to the Government, being a tax on consumption. The respective shares are fixed at the opening of each financial year by the Budget Act. Prior to the war, the Government received 80% and the Administration 20%. In 1944 the ratios were altered to 75% and 25%. Since 1946-47 the Government's share has been

(4) In this connection we need only mention that a Tuscan cigar, sold on the international market by the Monopoly for 2 cents, must pay in the United States a duty of 4 cents. Evidently the Monopoly regime existing in Italy is more liberal than the free regime. Thus, if we were to charge duties similar to those levied in the United States, a packet of 20 American cigarettes would have to be sold by the Monopoly to the Italian consumer at a price of more than 400 lire, i.e. a price one third higher than that now current on the black market.

further reduced to 65% and that of the Administration raised to 35%. In this way the tax raised on tobacco, which stood before the war at 400 per cent of the cost of production, has been reduced to 185%.

FISCAL YIELD OF THE ITALIAN GOVERNMENT MONOPOLIES (million lire)

Fiscal Year	Fiscal Yield of the Government Monopolies			Government total fiscal revenue
	All branches	Tobacco only	Tobacco ratio to all branches %	
1938-39	3,580	3,112	86.92	23,218
1944-45 (a)	10,168	9,339	91.84	46,369
1945-46 (a)	36,430	32,225	88.51	132,799
1946-47 (a)	65,337	60,557	92.68	318,151
	(57,337) (c)	(52,557) (c)	(91.67) (c)	(310,151) (c)
1947-48 (b)	70,307	64,307	91.46	497,338

(a) budgeted.

(b) original estimates unadjusted.

(c) figure provisionally revised to take account of the reduction from 75% to 65% of the government quota in the gross value of yearly tobacco sales.

The revenue from the Monopoly has always been an important item in the total fiscal receipts of the Treasury. In 1938-39 it accounted for 17% of the total, in 1928-29 for 15.8%, in 1938-39 for 15.4%. The tobacco branch alone—responsible for nine tenths of the Monopoly's fiscal revenue—contributed in 1938-39 a quota of 13.4% to the total Government fiscal receipts. This very high taxation of tobacco is consistent with the Italian fiscal system which has always had to provide the means for carrying out costly tasks by drawing them from an economy offering but scanty resources and therefore unable to leave a wide margin for non essential consumptions.

In these post-war years, as above stated, the Monopoly has been one of the branches of the fiscal system which has more rapidly recovered its yield capacity, thanks to the reconstruction of the tobacco plantations and of the factories.

In 1945-46 the contribution made by the Monopoly to total revenue receipts rose to 27.50 per cent. During that financial year the "to-

TABLE V

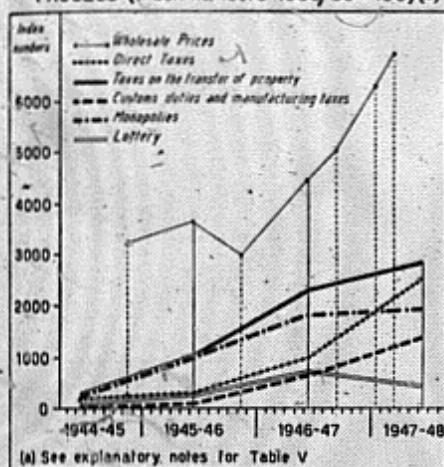
STATE MONOPOLIES AND THE OTHER SOURCES OF GOVERNMENT FISCAL REVENUE IN ITALY
Comparison of changes 1938-1948

Description	Revenue from the various categories of taxes as a percent of total government fiscal revenues					Index numbers of the revenue of the various categories of taxes (1938-39 = 100)			
	1938-39	1944-45	1945-46	1946-47	1947-48 (b)	1944-45	1945-46	1946-47	1947-48 (b)
1) Direct taxes	28.53	27.90	15.66	20.27	33.55	195.2	313.7	973.6	2,517.9
2) Taxes on the transfer of property (a)	26.23	41.80	49.10	44.55	33.76	318.4	1,070.7	2,328.0	2,894.1
3) Customs duties and manufacturing taxes	27.47	6.97	6.49	13.33	18.05	50.7	134.9	664.6	1,499.0
4) Monopolies (Tobacco only)	15.42 (13.4)	21.95 (20.14)	47.49 (24.27)	20.55 (19.03) (c)	14.14 (12.93)	284.0 (300.0)	1,022.0 (1,035.0)	1,825.6 (1,945) (d)	1,963.8 (2,068.4)
5) Lottery	2.35	1.38	1.26	1.30	0.50	117.0	308.0	762.3	460.0
Total	100	100	100	100	100	199.7	751.7	1,386.8	2,142.0

(a) Includes: the inheritance tax, the registration and stamp duties, the general turnover tax (the most important of the category), etc.; (b) data for 1947-48 are calculated on the basis of the original unadjusted estimates; (c) the percentage quotas of the Monopolies and tobacco branch for 1946-47 would fall to about 18.02% and 16.51% respectively, if we take account of the reduction from 75% to 65% of the Government's share in the gross value of yearly tobacco sales; (d) the index numbers of the Monopolies and tobacco branch for 1946-47 would diminish to about 1,601 and 1,688 respectively, if we take account of the reduction from 75% to 65% of the Government's share in the gross value of yearly tobacco sales.

bacco" branch alone provided the Treasury with nearly one fourth of all fiscal receipts (see Table V). The traditional advantage offered by taxation through monopolies, i.e. the greater ease with which it can be "manoeuvred" as compared to other forms of taxation on consumption, was then availed of. This possibility was made use of to a much smaller extent in 1946 when sales prices remained stationary, and so in the financial year 1946-47 the ratio obtained from the Monopoly again approached the pre-war level.

Chart III—INCREASE IN YIELD OF ITALIAN MAIN TAX CLASSES DURING THE INFLATIONARY PROCESS (Index numbers 1938/39 = 100) (a)



(a) See explanatory notes for Table V

A significant index to the intensity of the effort made by the Monopoly in the first post-war period is also afforded by the rate of increase of its proceeds. In 1945-46 they—together with the taxes on the transfer of property which are affected by special circumstances (5)—were the only ones to exceed by no less than ten times the proceeds obtained in 1938-39; the other taxes were deeply affected by the troubles created by the war and by inflation, and their growth has been particularly slow as com-

(5) The proceeds obtained from the so-called "taxes on the transfer of property" have been favoured by the introduction in 1939-40 of the turnover tax (*tassa sull'entrata*) now the most profitable of all the taxes in the Italian fiscal system.

pared to that prices (6). In 1946-47 the proceeds of the Monopoly rose over 18 times; but already the fact that sales prices remained fixed while cost were changing made itself felt, and while the rate of increase rose for other groups of taxes that of the yield of the Monopolies fell. Table V and Chart III call attention to this diverse dynamism of the several groups of taxes which, under present abnormal conditions, is far from having found its equilibrium. The chart shows the prompt initial reaction of the Monopoly and the subsequent tendency to stabilise at lower levels than those attained by some other groups of taxes. This aspect of the matter involves questions of fiscal policy claiming some attention.

12. — Undoubtedly the results obtained by the Monopoly are deserving of commendation when we consider the difficulties of all kinds amidst which they were secured. But they could have been more considerable had the energetic action taken in the field of production been marred by an equally energetic price policy. Unfortunately, while the problems of production were faced and settled with a realistic acceptance of the prices ruling on the market, the Government had not the courage to charge consumers the prices called for by the general rise of costs and the huge excess of demand over supply. So, while the cost of materials and services the Monopoly needs followed the more or less inflationary trend, rising in the Spring of 1947 to nearly 52 times those current in 1938, the rise in the prices of the manufactured tobacco was excessively slow and tardy. Substantially, the policy followed by the Government, while it allowed the Monopoly to be a realistic buyer, compelled it to be an excessively considerate seller.

This "partial attitude" taken by authorities in control, is clearly shown by Table VI and Chart IV. During the whole period since April 1945 the Monopoly has been selling its products at prices markedly below those offered for them by the black market. Price adjustments have been rare; those authorised in May

(6) On the difficulties of these adjustments see C. Cosciani, *Italian Tax Policy*, in this Review, July, 1947, p. 86 and seq.

and December 1945 were insufficient; for no less than 15 months, from January 1946 to March 1947, no variations were authorised, although the demand for tobacco and the general level of prices rose sharply during that period. The difference between official and black market prices—until March 1947 the latter had moved in close correspondence with the general index number for prices—thus amounted to more than 100% for those pro-

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TABLE VI
OFFICIAL SALES PRICES AND BLACK MARKET PRICES FOR MONOPOLY TOBACCO PRODUCTS
Index Numbers (1938=100)

Date	Sales Prices for Monopoly Products		Black Market Ratio to Official Prices %	Wholesale Prices (e)
	Official (b)	Black Market (c)		
May 1945 (a)	1,100	1,700	154	3,240
Dec. 1945 (a)	1,700	2,500	147	3,666
May 1946	1,700	3,300	194	2,985
Dec. 1946	1,700	3,800	223	4,432
March 1947 (a)	2,400	5,000	208	5,028
July 1947 (a)	3,600	4,700	133	6,287
Sept. 1947	3,060	4,400 (d)	143	6,914

(a) Dates of variations in the sales prices of the Monopoly: May 1, 1945; December 30, 1945; March 28, 1947; July 27, 1947.

(b) Approximate average index number.

(c) Approximate average index number of the prices for the cigarettes of the Monopoly most widely sold on the black market in Rome.

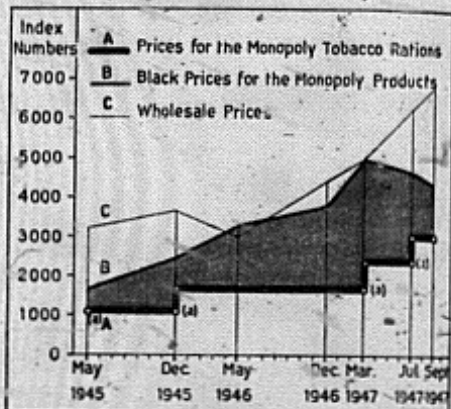
(d) After the increase of the ration in September 1947, the black market has continued to operate only in the larger centres. In country places the official prices have tended to become those of the market. The difference between official prices and black prices has therefore now much more limited significance than in the past.

(e) Index number compiled by the Centre for Business Statistics of Florence, more dynamic than those compiled—since May 1946—by the Central Institute of Statistics of Rome.

ducts of the Monopoly for which demand is highest, and this in spite of the steady growth of supplies as shown in Chart II.

Undoubtedly this policy has entailed heavy loss to the Treasury. The zone comprised between line A (official prices) and curve B (black prices) of Chart IV clearly shows how wide was the margin for price manipulation which the Government had, and affords an index to that ample purchasing power for non-essentials

Chart IV—OFFICIAL AND BLACK PRICES FOR MONOPOLY MANUFACTURED TOBACCO (Index Numbers 1938=100)



(a) See explanatory notes for Table VI

ed reduction in the previous rate (from 400% to 185%). This decline indeed is accounted for by the fact that as the Government did not adjust sales' prices more closely to production costs, it has recently had to reduce its share of the sales proceeds from 75% to 65% so as to allow the Monopoly to cover the growing costs of operation. Substantially, taxation has been lowered owing to the fact that political considerations have prevailed over financial ones in fixing the sales' prices, and not because of a need arising as a result of deficiencies in the commercial and industrial operation of the Monopoly.

14. — The principles guiding the industrial and commercial administration of the Monopoly and the results secured may be illustrated

by some comparative references to production costs foreseen in the original estimates for the financial year 1947-48 which balances, with expenditure standing at Lire 39,526,200,000 and receipts standing at a like amount.

Costs as a whole mark a rise of 52.85 times those of the estimates of 1939-40. As originally estimated production exceeds the pre-war figure by 10%, the coefficient of increase corresponds closely to the general wholesale price index compiled by the Central Institute of Statistics which showed in July 1947 a rise of 57.8 times over that of 1938.

An examination of the several chapters of expenditure however points to some interesting details illustrating both the serious dislocations caused by inflation in the pre-war positions, and some aspects of the administrative strictness exercised by the Autonomous Administration. The coefficients of increase spread out in a very wide fan at the following rates:

— 58.57 times for the purchases of tobacco. This increase has nothing abnormal when compared to that for other farm products. The incidence of this irreducible item on total expenditure has risen from 66% in pre-war years to 74%; the increase is offset by corresponding reductions of other items, bearing witness to the effort made by the Administration to economise;

— 73 times for the purchase of machinery and auxiliary materials;

— 31.12 times for the distributing and selling services;

— 18.86 times for transports;

— 14.08 times for overhead, i.e. expenses for the operation of the General Direction, salaries, the upkeep and supervision of buildings, etc. This item added to the cost for pensions accounted before the war for 28.88% of total expenditure; today it has fallen to 7.47 per cent of the total. This shows that the Administration has eliminated or reduced to the utmost all expenditure not strictly essential for production.

Two Main Problems.

14. — I have shown that the Monopoly has now solved the problems related to the production of tobacco so far as quantity is concerned; and it is on the right path for solving the problem of quality and will progress rapidly in this direction so as to reduce in the course of the next few years to the pre-war minimum the sacrifices the consumers are called on to make in this respect.

Two important problems are still however unsolved and they are partly connected with the atmosphere of inflation. I have already referred to them. They are (a) the revision of the "autonomous" position of the Monopoly; and (b) the principles guiding the Monopoly's market and therefore also its fiscal policy.

16. — I am convinced that the Autonomous Administration would be more efficient if its "autonomy" were more clearly defined. The present position is an ambiguous compromise under which the Administration is subject to an undue number of controls and bureaucratic interferences and has to observe systems and accept arrangements ill-suited to a typically industrial-commercial enterprise. I do not indeed advocate the return of the Administration to private operation. Personally, I agree with those who consider that in the case of very large-scale undertakings the form of ownership—whether public or private—becomes a matter of little importance; under either system the business may enjoy a like degree of economic efficiency and elasticity, provided the organisation in both cases be similar. Successful examples of publicly-owned Corporations organised on the same lines as great private enterprises are not lacking in Italy. A solution of this kind should be adopted in the case of the Monopoly also. If the Administration of the Monopolies were really autonomous, managed by administrative organs possessing powers of initiative and decision such as those normally assigned to the managing organs of great industrial concerns, if the ministerial and bureaucratic controls and delays were limited to those of supervision and revision, if the

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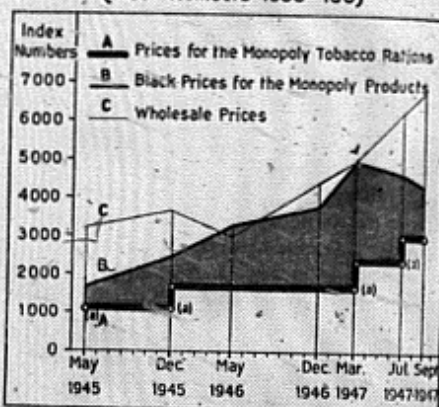
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rules and regulations applied to the staff were recast so as to allow of greater mobility and elasticity in assigning positions and fixing salaries, the Administration would acquire a flexibility which would allow of more rapid and more timely action, qualities more than ever necessary in times like these when prices and costs are so unsettled and when the business has started on a plan of modernisation and reequipment. The result would be higher and better production and lower costs.

16. — Of course, the first object of the effort to improve the organisation of the concern should be to assure the largest possible returns to the Treasury. And here we touch on the second problem on which clear and precise ideas are necessary. As I have already said, of the two elements between which the holder of any monopoly can choose, sales' volume and prices, the Italian Government has neglected in this post-war period that of prices, and this in an exceptional phase of a seller's market when the rare opportunity offered for combining a price policy with one for increasing the volume of production and sales. The hesitations which have prevented the Government from manipulating prices to its advantage seem to me incompatible with the present Italian situation. Today our fundamental aim should be the rehabilitation of national finance, whose disequilibrium is the most dangerous of the causes of inflation. With this end in view, extraordinary taxes are already being levied on producers, in a measure which perhaps exceeds their power of resistance. According to the estimates for 1947-48 the ratio between direct taxes and the whole volume of fiscal receipt will stand at 33.5 %, an unprecedented figure (see Table V), and this is due above all to the heavy

capital levy decreed in 1947 (7). Yet nevertheless the estimated deficit for 1947-48 still stands at no less a sum than 300 milliard lire (8). Under these conditions, there are obvious reasons for setting aside any surviving inclination to spare the consumers of non-essentials. I can see no reason why an exception should be made in favour of tobacco. Indeed, under these special circumstances I consider that the monopoly should be exploited to the utmost extent possible, until the point is reached when the relation between selling price and volume of sales is that which assures the maximum fiscal revenue. Nor should I hesitate to sacrifice for this purpose and for some time to come the production targets now in view, especially if the check on production were to leave more lands and more materials available for raising essential products now in short supply. To act otherwise under the present emergency would to my mind amount to conceding a subsidy in favour of smokers and relinquishing action to make the tax on tobacco approach once more the level which had been accepted as reasonable in normal times. Unless the prices be manipulated on realistic lines it will moreover be difficult to maintain, or increase as would be desirable, the ratio of approximately 14 % to total fiscal revenue which the proceeds of the Tobacco Monopoly accounted for in pre-war years (9).

(7) See Benvenuto Griziotti, *Three Forms of Capital Levy in Italy*, in this issue, p. 149.

(8) The present estimates for the Italian budget are subject to constant revision, owing to the very unsettled monetary and economic situation. The latest, made in October 1947, reckons that tax receipts have risen to 800 milliard lire as against expenditure which has risen to 1,100 milliards; the deficit has remained at the originally estimated figure.

(9) In the first three months of the financial year 1947-48 (July-September 1947) the proceeds of the Monopoly, amounting to 23.1 milliard lire, represent precisely about 14 % of the total government receipts from taxation (165.4 milliard lire).