

Premises and Tasks of the Special Fund for Financing the Italian Engineering Industry

by
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On September 1947 (D. L. of the Provisional Head of the State, 8-9-1947, n. 889), the Italian Government decided to appropriate 55 milliard lire, in twenty annuities which can be discounted, for financing the Italian engineering industry (*Fondo per le Industrie Meccaniche: F.I.M.*).

The establishment of so large a fund at a time when a new credit and financial policy was being started, clearly shows the importance the Government attaches to this branch of activity and to the solution of the problems besetting it.

A rapid examination of these problems and of their financial aspects may therefore be considered as of particular present interest.

The Italian engineering industry on the eve of the war (1).

1. - The Italian engineering industry has developed rapidly since 1914. In the decade which began in 1935 it redoubled its activity, showing a rate of increase markedly superior to that of other branches (2), and occupied the first place in the list of Italian industries, displacing the textile trades which had been the most important in the previous 50 years. This exceptional development has been due not only to the needs of a typical phase of industrialisation,

(1) For fuller information about the origins of the Italian engineering industry consult, besides the general works by Barbagallo, Morandini, Tremelloni, which give a detailed bibliography, Golzio's "*L'industria dei metalli in Italia*" (Turin, Einaudi, 1942). Among the recent studies that have appeared on the engineering industry in Italy, see more especially Report of the Economic Committee of the Ministry for the Constituent Assembly - II - Industry - Vol. 1, Rome, 1947.

(2) From 1935 to 1943, while the labor force taken as a whole increased by 3% that engaged in the engineering trades increased by 39% (264,000 persons).

accompanied by growing mechanisation, but also, to a considerable extent, to the exceptional stimulus afforded by autarkic policies and military preparations.

The industrial census taken by the Central Institute of Statistics (1937-1939) had already afforded evidence in 1938 of the foremost position occupied by the engineering trades in Italian industrial life from the point of view of the number of persons engaged in them, the hp. used, and the capital invested. The ranking order of the several branches of industry at that date is shown in Table I. The engineering trades alone account for about 19

TABLE I
INDUSTRIAL BRANCHES AS PERCENT
OF TOTAL INDUSTRY IN ITALY (1938)

| Branches | 1 | 2 | 3 | 4 |
|------------------------|---------------------|----------------|---------------------|-----------------------|
| | By persons occupied | By horse-power | By capital invested | Total average (1+2+3) |
| 1. Engineering | 20.7 | 19.0 | 17.9 | 18.8 |
| 2. Textiles | 20.1 | 14.9 | 14.4 | 16.0 |
| 3. Food and drink | 13.9 | 15.4 | 17.0 | 12.8 |
| 4. Electricity | 1.3 | 2.6 | 16.9 | 9.4 |
| 5. Iron and steel | 3.2 | 16.5 | 6.3 | 8.4 |
| 6. Chemicals | 3.9 | 9.2 | 9.0 | 7.8 |
| 7. Building | 14.8 | 2.7 | 3.9 | 5.3 |
| 8. Non metallic ores | 5.5 | 6.4 | 4.5 | 5.1 |
| 9. Mining and quarries | 4.2 | 3.4 | 5.4 | 4.3 |
| 10. Wood | 3.2 | 2.3 | 2.8 | 3.7 |
| 11. Leather | 2.1 | 0.7 | 2.9 | 2.8 |
| 12. Miscellaneous | 3.6 | 2.1 | 2.8 | 2.6 |
| 13. Paper | 1.7 | 3.7 | 1.6 | 2.1 |
| 14. Printing | 1.8 | 1.1 | 0.6 | 0.9 |
| Total Industry | 100 | 100 | 100 | 100 |

Source: Report of the Economic Committee of the Ministry for the Constituent Assembly - II - Industry - Vol. 1 - pp. 221-224.

per cent. of the total industrial potential, followed by the textile and clothing and by the food industries. Those three accounted in all for nearly 53% of total potential.

2. - In 1938 the engineering industry occupied in all about 845 thousand persons or be-

persons occupied and 88% of the hp. used in this branch. No less than 231,000 persons, i.e. one third of the total (artisans' shops excluded), were centralised in 124 establishments (1860 persons per shop). Another 126,000 persons were engaged in 281 shops (from 251 to 1000 persons per shop). Thirty establishments alone

ITALIAN ENGINEERING INDUSTRY BY SIZE OF ESTABLISHMENTS (1938)

TABLE II

| Size of Establishments | Establishments | Occupied persons (a) | H.P. | Establishments | Occupied persons | H.P. |
|---|----------------|----------------------|-----------|----------------|------------------|------------|
| | (Number) | (Number) | (H.P.) | (Per cent) | (Per cent) | (Per cent) |
| Small (0-10 persons occupied) | 15 | 59 | 282 | 0.3 | — | — |
| Medium (11-100 persons occupied) | 4,212 | 134,972 | 133,527 | 81.2 | 20.5 | 12.2 |
| Large (more than 100 persons occupied) | 957 | 524,160 | 959,173 | 18.5 | 79.5 | 87.8 |
| Total | 5,184 | 659,191 | 1,092,982 | 100.0 | 100.0 | 100.0 |

(a) The data are exclusive of overhead services; for this reason the total number of persons occupied in the engineering industry is inferior by 15,776 units to the figure given on p. 170 (659,191

units instead of 674,967).

Source: Report of the Economic Committee of the Ministry for the Constituent Assembly - II - Industry - Vol. I - pp. 241-245.

tween a fourth and a fifth of all persons engaged in industrial occupations in Italy. It counted 5,184 establishments with 674,967 persons, to whom must be added some 7,000 artisans' shops with 170,000 workers.

In the engineering, as in the metal, textile,

had an output accounting for one third of the total value of the products of the Italian engineering industry.

3. - The important place occupied by the engineering trades in Italian economy could

COMPARISON BETWEEN THE ITALIAN AND THE BRITISH ENGINEERING INDUSTRIES TABLE III

| Country | Percentage ratio to the total for industries | | | H.P. per person occupied | Index Numbers | | |
|-------------|--|------|----------------|--------------------------|------------------|------|----------------|
| | Persons occupied | H.P. | Persons + H.P. | | Persons occupied | H.P. | Persons + H.P. |
| Italy | 24.0 | 23.3 | 23.6 | 1.7 | 100 | 100 | 100 |
| Gt. Britain | 20.1 | 13.5 | 15.4 | 1.7 | 202 | 210 | 207 |

Source: Report of the Economic Committee of the Ministry for the Constituent Assembly - II - Industry - Vol. I - p. 235.

chemical and paper industries, large scale businesses were the more numerous, unlike the leather, wood, printing, food, clothing, building and non-metallic ore industries. The larger shops, employing more than 100 persons, accounted for nearly 80% of the total number of

also be illustrated by comparisons with foreign countries. Although these comparisons can only be approximate owing to the differences in the nature of the data collected (differences of time and method), yet they have considerable value as indicating trends. Table III

brings together the data of most significance in making a comparison between the Italian and the British engineering industry (3).

We can see from this table that while in absolute figures the output potential of the British engineering trades in 1938 was double that of the Italian, the relative weight of the engineering industry in the total for all industries was greater in Italy than in Great Britain.

A similar comparison with conditions in Germany would lead to like results, if we take into account the different periods at which the returns were made in the two countries (1925 and 1937).

The ratio between human labour and horse power (Hp per person), the so-called "index of mechanisation", is particularly significant. This ratio, which in nearly all Italian industries was still low when compared to that of the more advanced industrial countries (4), was, in the case of the engineering industry, nearly equal to that of Great Britain (industrial census of 1930) and of Germany (industrial census of 1925). Even when we take into account the different dates of the periods compared, the similarity of the positions should not be undervalued, and might, in a first rough appreciation, afford an indication of the considerable results secured by our engineering trades from the point of view of mechanisation and efficiency.

The index of mechanisation rose with the size of the establishments, passing from 1.2 in the shops with 101-250 workers to a maximum of 2.2 in those with over 2,000.

4. - The capital invested in the Italian engineering industry in 1938 (factories, machinery and stocks) was estimated at 20.1 milliard lire,

(3) The data relating to the British engineering industry have been taken from the industrial census for 1930. To make these data comparable with the Italian, we had to exclude also from the Italian figures all shops with less than 10 persons, as such businesses are not considered in the British census.

(4) In this connection we may recall the fact that in Italy almost 50% of the industrial establishments (exclusive of handicrafts), employing 14% of the total number of workers, did not use any motor power (in the United States the number working under such conditions was less than 3%). This is largely accounted for by the lower wages and the relatively high cost of power, both factors which retard the progress of mechanisation in Italy.

of which two thirds were represented by the fixed capital and the remainder by the circulating capital. From this point of view also, the engineering industry ranked first among Italian industries, followed by the electric power (19 milliards), the textile and clothing (16.1 milliards), the food (12.3 milliards) and the chemical industries (10.1 milliards).

The average capital per person engaged in the engineering trades stood around 23,700 lire (inclusive of artisans' shops).

The value of the output, estimated at 17,579 million lire, was distributed between the se-

TABLE IV

VALUE OF ENGINEERING PRODUCTION, BY CLASSES, AS PERCENT OF THE TOTAL (1938)

| | |
|--------------------------------------|------|
| Shipbuilding | 8.9 |
| Aircraft | 7.0 |
| Automobiles | 16.5 |
| Railway and Tramway rolling stock | 3.8 |
| Engines, Pumps, etc. | 7.5 |
| Agricultural and Industrial Machines | 3.6 |
| Machine Tools, and Tools | 1.7 |
| Scientific Instruments | 1.9 |
| Electrical Machinery and Apparatus | 8.5 |
| Sundry Industrial Plants | 8.5 |
| Foundries, Springs and Bolts | 8.5 |
| Munitions of war | 12.0 |
| Miscellaneous | 11.6 |
| Total Engineering Industry | 100 |

Source: Figures calculated by I.R.I.

veral branches of the industry in the percentages shown in Table IV. Raw and subsidiary materials represented 55.6% of this total (9,776 millions) and 44.4% was accounted for by "added value" (7,803 millions). Wages alone accounted for 18% (3,104 millions lire) of the global value of the output. The engineering trades are therefore those which, in the list of leading Italian industries, show the highest quota of "added value" and of wages incorporated in the product, i.e. they are those which, other things being equal, occupy a larger number of workers. Therefore their development in some branches would appear to be particularly desirable as a means for assuring fuller occupation and a higher national income; but this development is depen-

dent—as will be shown—on the possibility of securing adequate opportunities for export.

The great majority of the engineering undertakings were and are operated by private industry; nevertheless, special importance is conferred by their size on the undertakings controlled by the great government holding, the I.R.I. (*Istituto per la Ricostruzione Industriale*: Institute for Industrial Reconstruction). Indeed, the contribution made by the establishments controlled by the I.R.I. to the total output of the Italian engineering industry was estimated in 1938 at 23.30%. The branches more especially concerned were the shipyards (80%); arms and munitions (60%), engines and motors (39%), rolling stock and material for railways and tram-lines (25%). The most difficult of the problems the industry now has to solve are those facing these four branches, and more especially that specialised in the production of arms and munitions.

The present crisis in the engineering industry.

5. - The Italian engineering industry has not been affected only by the causes of development common to all the countries which participated in the second world war, *i.e.* the rapid growth in the demand for munitions of war. The structure of the industry had already been seriously distorted during the previous five years of autarkic policies, which introduced into the Italian engineering trades factors of intrinsic weakness as compared to the more advanced of the competing industries; it had accentuated the differences in the cost of raw materials; it had stimulated a process of vertical integrations which was often harmful; it had removed the incentive to greater specialisation and had therefore prevented the trades from taking advantage of the savings obtained by the mass production of standardised goods. Lastly, the distorting influences were aggravated by the marked monetary inflation of this postwar period.

6. - Data comparable to those of the 1937-39 census are still (October 1947) lacking on the new structure of the engineering industries. I will not therefore attempt to analyse

the partial data so far brought together but shall wait until I can make—as I purpose doing—a new general enquiry. I will only mention as indicative of a trend—and with all the due caution required in the case of estimates that have not been confirmed—that the present productive potential of the engineering plants has been calculated by some as 60-65 per cent higher than the actual production obtained in 1938. On the other hand, real present production is said to be markedly below the pre-war figures (perhaps equal to 75%). The margin of idle potential would therefore be very high, and would evidently be reflected in costs. This wide difference between theoretical and actual production was attributed, until recently, to the deficiency of raw materials caused by various bottle-necks hindering the inflow of foreign supplies; but it was also largely due to the changed demand on the commodity market. Undoubtedly the lack of coal, electric power, and steel products was the greatest difficulty our engineering works met with in the first post-war period, and it prevented them from availing themselves fully of the favourable conditions then prevailing on the international market, as a means for eliminating some of their troubles. But this is not the obstacle which now chiefly claims attention, especially if a long-term plan has to be considered, covering a period during which the possibilities for securing supplies of raw materials will again become normal.

The "depression" in the Italian engineering industry depends, fundamentally, on other factors inherent in our special conditions at home. The factors to be considered are of several kinds, interlinked one with the other, and only partially shared by other industries.

7. - The fundamental problems facing the Italian engineering industry today are, from the standpoint of demand, the limited size of the home market, the changes that have come about in the kind of products required and the growing difficulty of securing adequate outlets on foreign markets; from the standpoint of supply they are the super-abundance of labour, accompanied by the insufficiency of raw materials, a more or less backward business organisation, and the lack of capital.

(a) *The market.* - The inadequate power of absorption of the Italian domestic market is a first obstacle which, in the past, tended to restrict production within limits which were not the best from the point of view of technical and economic yield. The insufficiency of our market is more marked than ever to-day when the outlet offered by army orders, which absorbed probably nearly one third of the total output in 1938, has ceased (5). The serious reduction in the national income consequent on the war makes it improbable that civilian demand will soon offset the loss of those orders. In fact, Italy is, passing now through a period of extreme penury of savings available for capital investments, and the engineering trades, which are those typically engaged in the production of instrumental goods, are feeling more than others the characteristic features of this period of impoverishment.

This makes the problem of securing large currents of export an imperative one. Only by increasing the demand for their goods on foreign markets will the Italian engineering trades be able to attain that level of production which will assure them the place they should occupy in the plans for securing higher employment and the rehabilitation of Italy's balance of payments; *i.e.* in the program for increasing the national income. In pre-war days, the Italian engineering industry exported about 6% of its output; immediately after the war the quota could have been a higher one had it not been that the scarcity of raw materials and of power, and the slow revival of international traffic hindered enterprise and placed difficulties of all kinds in its way. In any case, the contribution to exports made by this industry in the first half of 1947 has been a relatively high one, with exports estimated at 50 million dollars (6), *i.e.*, on the basis of a real ex-

change rate of 500 lire per dollar, at 25 milliard lire, equivalent to the rate of exports in 1938, which amounted for the whole, to a little over 1 milliard lire (corresponding roughly to 50 milliards of 1947 lire). Should we succeed in 1947 in attaining, notwithstanding the many difficulties, the pre-war level of exports, this would already represent a notable effort accomplished; and it would mean that about one tenth of our present production (7) will have been able to go abroad. The year has been a typical example of an easy "seller's market", on which the purchaser looked less to the price than to the rapidity of delivery. But in the second half of 1947 the situation had already undergone a change; international competition had grown keener and the Italian concerns had been seriously hampered by higher comparative costs.

(b) *The productive factors.* - The problem has therefore become one of costs. It involves the questions of a better use of the labour forces, the more adequate supply of raw materials at international prices, large capital investments, and competent organisation. All this points to the need of reconversion in the widest meaning of the term, which cannot be left exclusively to the spontaneous process of selection and experiment, and still less to the influence of a studied intervention of customs' protection.

In the first place, and not to-day only but ever since preparations were being made for

majorer by 125 % (225 l. for 1 doll) reckgn the value of the engineering products exported at 10,782 million lire; this estimate is undoubtedly; and enormously, below the real figure, as it does not take into account real exchange rates which were much higher, nor the large-scale evasions in the returns made for exports. The sum mentioned above of 25 milliard lire is probably nearer to the truth; but even that figure is perhaps lower than the real one to judge by an enquiry I directed for a set of businesses representing about 90 % of all the Italian engineering concerns; the exports made by them appear to have exceeded 60 milliard lire in the period from January to September 1947.

(7) The conjectural figures for the value of the production in 1947 can only be roughly approximate. The data obtained by the enquiry referred to in the previous footnote would incline me to believe that the value was somewhere between 550-600 milliards of present day lire. I cannot try to check the accuracy of this conclusion — based on returns made by the producers themselves — by referring to statistical indexes of the prices and production of the branch, as such an analysis would lead me too far afield, and would also require a difficult enquiry into the degree of reliability of the index numbers themselves.

(5) The industries working exclusively for the army already accounted in 1938 for 12 % of the output of the engineering trades; if we add to this one half of the output of the naval industries engaged in supplies for the navy, we reach a figure of 16 %. The varied supplies for the navy, we reach a figure branches of engineering and all the work indirectly connected with military activities justify the percentage given in the text, a percentage which of course must have been modified in the course of the second world war.

(6) It is impossible to make a sure calculation of the value of Italian exports in the first half of 1947. Italian official statistics, by applying the official rate of exchange then in force,

the customs' tariff of 1878, the engineering trades have complained that their growth has been hindered by the use of *steel products supplied by the protected Italian industry at prices on too a high level as compared to those ruling on the international market*. The dispute between these two branches of production, temporarily silenced by autarkic policies and military preparation—which afforded some compensation to the engineering trades—now threatens to revive. In the opinion of some engineering experts, the price now ruling for Italian steel products is three times higher than in France, twice than in the United States, 1.98 times than in Belgium, and 1.82 times than in Great Britain. A systematic solution of the problems facing the engineering trades would therefore entail the co-ordinated consideration of the steel problem, and so would involve structural revisions and the elimination of special interests not readily removed both in the field of capital and of labour.

These drawbacks, external to the industry, are matched by others in its internal structure, *i.e.* disequilibriums both in relation to the several branches of production and in relation to the individual undertakings. The situation shown by the census of 1937-39, which in its technical if not in its economic aspects was not altogether a discouraging one for Italy, has deteriorated since the beginning of the war. The numbers of concerns had grown, and they were located in conformity with military and political considerations rather than on the basis of the conditions necessary to ensure growth. The labour force has increased correspondingly but was largely improvised, while a serious work of training and specialisation has been neglected. Moreover, the levelling of real wages, typical of periods of inflation, has discouraged the incentives for improvement; improvised entrepreneurs have taken over the management of many new undertakings; the standard of quality of a scanty output, for which there was a large competitive demand, has declined; overhead expenses have rocketed.

When the war ended, the process of reconversion and reconstruction went forward actively, often stimulated by an enthusiastic but

unsystematic spirit of enterprise, regardless of the new requirements of business now carried on under conditions which expose it to the freezing blasts of international competition. The dispersion of the enterprises, the lack of specialisation, the discontinuity of the efforts, and the short-sighted outlook, are perhaps more marked now than in the last pre-war decade in many branches of the engineering trades. The outlay on superfluous labour forces has helped to retard the revision of costs, and monetary uncertainties have continued to aggravate the difficulties facing the entrepreneur.

8. - Under these conditions, the first problem the Italian engineering industry must tackle, if it is to be able to meet foreign competition on the home and the international market, is that of large-scale rationalisation. This is a problem of life or death for large sections of this industry. But this work requires large investments and considerable medium and long term credits; above all, a serious re-examination of all the conditions needed for avoiding the useless and harmful dispersion of capital in ill-considered and provisional attempts at reconversion.

Post-war financial assistance to the engineering industry.

9. - The problem facing the engineering industry is therefore one in which its rationalisation and the investment of new capital are inter-dependent. Without the former it is useless to hope for the latter, but without capital no rationalisation will be possible. Even today, the financial problems of the engineering trades are only one aspect of the larger general problem of insufficiency of capital which is the chronic illness of Italian economy, intensified in these post-war years. But it is in the engineering branch that the "financial crisis" is most seriously felt, for three main reasons:

(a) *War devastations.* The engineering plants were some of the targets most actively sought for and most seriously damaged by the military operations;

(b) *reconversion and rationalisation needs.* The importance that work for the army had acquired for these trades entailed structural distortions which other industries, such as the textile and food processing ones, were able to avoid. Moreover, wear and tear, both physical and economic, were more severely felt and more widespread in the engineering shops than in other productive plants;

(c) *the excessive number of workers on the pay-rolls during periods of low production* in the last few years. The engineering concerns have been among those most severely affected by the veto placed on dismissals—the labour block—decreed by the Fascist Government in 1944, and confirmed by the Italian Government in 1945 under the pressure of the organised labour unions. This has meant that the companies, while suffering from reduced production, have had to shoulder a costly form of relief. In the autumn of 1947 the number of surplus workers whom, under present conditions, it was not possible to employ usefully, was optimistically calculated at no less than 50,000, but undoubtedly this figure would be doubled if the matter was gone into more carefully, and perhaps even trebled if account were taken of *per capita* yield on the basis of that of 1938.

These three negative factors—from which the other great branch of Italian industry, the textile trades, suffer if at all only in a minor degree—have exhausted the engineering branch, which has been forced to live amidst uncertainties, makeshifts, constant and confusing modifications in organisation, while making heavy expenditure on unproductive wages.

The suspension of the law on compensation for war damages—rendered inapplicable by the enormous volume of losses (8)—has aggravated the situation by compelling the undertakings to meet the cost of reconversion entirely out of their own resources.

10. - The serious nature of the crisis is also shown by lack of working capital. The process of inflation, combined with the burden of reconstruction works, the widespread habit of making hasty investments in real goods, and with unprofitable business in the critical

years 1945-46, has steadily reduced the circulating capital of the companies, displacing its ratio to fixed capital. Many of the manufacturers engaged in the engineering business have not paid enough attention to this phenomenon, hoping that their difficulties would be once more settled by the inevitable intervention of the Government, and naturally unwilling to carry out disinvestments in a period of monetary depreciation.

In the summer of 1947, at the first signs of the check placed on credit expansion, the dearth of circulating capital became clear. If we roughly estimate the annual production in 1947 at a maximum sum of 600 milliard lire, and if we take five months as the average length of the working cycle, the circulating capital needed would amount to 250 milliard lire. About one third of this amount can be expected from advances made by customers and credit granted by suppliers; for the remaining two thirds the companies must apply to the banks if they do not themselves possess the requisite funds. It is not yet possible to give definite figures for the volume of the disparity; but it would seem that we may roughly estimate at about 120-150 milliard lire the hiatus between the circulating capital at the disposal of the firms and their financial needs for meeting operating expenses (9). Moreover, if production is to be directed to a larger extent than heretofore toward foreign markets, the possibility of receiving advances from customers, which heretofore have partially financed the cycle, will be reduced.

11. - The Italian banking system since the reform introduced in 1931, when the I.M.I. (*Istituto Mobiliare Italiano* for medium and long-term industrial credit) was set up, has wisely restricted its operations to those of ordinary commercial credit, and has now adopted the principle of refusing those medium and long-term loans required for systematic reorganisation. Even in the case of short term

(8) The Act approved in 1940 had in view the compensation of the owners, in full or in part, for losses caused by the war.

(9) It should be noted that the figure of 120-150 milliard lire is an exclusively monetary one, and does not represent supplies of raw materials at the disposal of the market on which this sum could in part be expended.

working capital loans, for which there is an eager demand, the banks in the post-war years have had to adopt special precautions to avoid frozen credits, which, in view of the obvious deficiency of fixed capital and income capacity in the engineering trades, would inevitably have arisen.

On the other hand, the financing institutes specialised in granting medium and long-term loans were in a condition which made them almost powerless to meet such great needs. Even before the war, the two typical institutes for granting this form of credit, the I.M.I. and C.S.V.I. (*Consorzio per sovvenzioni su valori industriali*, Consortium for industrial advances), had been considered inadequate for the task. Since the war, the criticisms then made have been translated into realities to an alarming extent. The needs of the Treasury on the one hand, which pressed on the scanty available means, on the other the difficulty experienced in floating loans in a period of monetary depreciation, combined to make it impossible to secure a direct supply of capital of some importance on the home market.

The steps taken to establish other institutes for industrial financing have led to the formation of some new organs (the *Mediobanca*, a creation of the three Banks of National Interest, an industrial credit department of the Bank of Naples, and another similar one of the Bank of Sicily), but the same obstacles that paralysed the I.M.I. have affected these new organisations, and have so far limited the assistance they could give.

The same thing has happened in the case of the I.R.I., the great government holding, one of whose tasks is that of meeting the financial needs of the undertakings it controls. But the difficulties of the I.R.I. have been complicated by the political disputes in which it has been involved and which suspended its effective working for more than two years. Only now does it seem that the problem of the I.R.I. is finding a solution between the opposite views of those who wanted to dismantle it and those who wanted to strengthen it; but whatever the final solution may be, instead of being able to supply new funds, it will require to receive others in addition to those it has already obtained.

This emergency situation has polarised the requests for funds on the Government, and the Treasury has been compelled to increase its deficit by assuming the burden of further interventions: disbursements and guarantees. This is a chapter in the financial management of the Italian Government which, considered in the abstract, cannot but give rise to serious criticism. It is a chapter telling of scattered, sporadic concessions, wrested under the pressure of emergencies; a mass of expenditure which, in the absence of an adequate and co-ordinated plan, has led to notable waste with few constructive results. But here again, the critic must bear in mind the exceptional conditions under which the Government had to operate and should therefore try to correct rather than to blame the errors committed.

12. - It is difficult to draw here a complete picture of the forms of government financial interventions in favour of the engineering industry in these post-war years. We can only give a summary sketch.

(1) - *Direct financing of undertakings with funds supplied by the Treasury:*

(a) a decree of June 1945 (10) amended in August of the same year, provided for advances in favour of industrial undertakings holding credits against the Government for supplies and services furnished prior to September 8, 1943, in those cases in which the final settlement could not yet be made because of the absence of vouchers etc., frequently destroyed by war operations. The amount appropriated for this purpose was 5 milliard, of which 1,890 million lire paid to the engineering trades.

(b) in May 1946 (11) when deflationary symptoms had added to the strain in the industrial situation, an appropriation was authorised for making advances to industrial enterprises in an amount of 3 milliard, subsequently raised to 13, to be granted through the I.M.I. Of this the engineering industry received 9,741 million lire.

(c) in June 1946 (12) advances were

(10) D.L.L. 14-6-1945, N° 365.

(11) D.L.L. 8-5-1946, N° 449.

(12) D.L.L. 21-6-1946, N° 5.

authorised in favour of undertakings of exceptional national importance which could not avail themselves of the measures taken under previous decrees. The amount appropriated was 1 milliard lire, of which the engineering industry received 400 million.

The Government appropriated in this manner 19 milliard lire, of which nearly 12 milliard have been paid to the engineering trades.

(2) - *Grants to the I.R.I.*

(a) In March 1946 the endowment fund of the I.R.I. was raised from 2 to 12 milliard lire by a contribution of 10 milliard made by the Treasury (13). The decree specified that this sum was to be used exclusively for financing undertakings controlled by the I.R.I. or for increasing their capital or the capital of other concerns in which the I.R.I. might wish to acquire an interest;

(b) in July 1947 (14), the Treasury was authorised to make a first advance to the I.R.I., not to exceed a maximum of 5 milliard lire;

(c) in October 1947 (15), a second advance was made to the I.R.I., not to exceed a maximum of 10 milliard lire.

Therefore in all, the State has assigned to the I.R.I. since the war a sum of 10 milliard as a permanent endowment and 15 milliard as advances.

These funds, majored by others obtained by loans from the C.S.V.I. and from the banks, more especially in the form of advances on securities and discounts, have enabled the I.R.I. to assist the engineering groups under its control with a total of some 36 milliard (in the period running from the first months of 1945 until October 1947).

(3) - *Loans made by banks, guaranteed by the Government or enjoining government contributions towards the payment of interest rates.*

To facilitate the financing the Government has, in many cases, guaranteed the advances made by credit institutes and contributed to

(13) D.L.L. 15-5-1946, N° 86.

(14) D.L. of the Provisional Head of the State, 21-7-1947, N° 709.

(15) D.L. of the Provisional Head of the State, 2-10-1947, N° 1037.

the payment of the interest due on the amounts borrowed. Thus:

(a) the Government guaranteed in November 1944 (16) the advances made by the Public Law Credit Institutes and by the organisations exercising industrial credit, to undertakings of specific importance for the settlement of civilian life and the recovery of the lands gradually liberated from the Germans. This guarantee was limited at first to 3 milliard, but was subsequently raised to 25. The loans granted to the engineering trades enjoying this guarantee amounted to 4 milliard and 699,500,000 lire.

The same decree authorised the Government to assist in the payment of interest rates up to a maximum rate of 3% per annum;

(b) in August 1945 (17) the Government guaranteed up to a maximum of 3 milliard lire the advances made by Credit Institutes and organisations to industrial undertaking which did not dispose of the means necessary for meeting unpostponable payments required for the operation of their respective businesses; this decree however has never been given effect (18);

(c) in October 1945 (19) the Government guaranteed, up to a maximum of 3,500 million lire, the advances made by Public Law Credit Institutes or Corporations exercising naval and fishing credit for financing the salvaging and refitting of ships that had been wrecked. Loans for a sum of 500 million lire were made under this guarantee;

(d) in December 1945 an Autonomous Section for Industrial Credit was opened by the Bank of Sicily, whose operations enjoyed either government guarantee up to a maximum limit of 600 million lire, or a government contribution to the payment of the interests at the usual maximum of 3% per annum (20). Loans ex-

(16) D.L.L. 1-11-1944, N° 367.

(17) D.L.L. 14-9-1945, N° 605.

(18) The reasons why this guarantee was never applied are to be sought in the fact that the Credit Institutes which were to have made the advances did not think the guarantee afforded by the decree sufficient to cover them in case of the insolvency of the borrowers.

(19) D.L.L. 14-10-45, N° 686.

(20) As a matter of fact the contribution made by the Government to the payment of interest rates has generally amounted to 2.50-2.75%.

tended to the engineering industry, with government guarantee: L. 6.5 million only;

(c) in August 1947 (21) a government guarantee was extended to banks for the guarantees they themselves granted on the advances on purchase price made by foreign customers ordering ships of our ship-yards. The guarantee was given up to a limit of 15 million U.S. dollars, equal, at the present average exchange rate of 600 lire to the dollar, to 9 milliard lire (22).

We thus see that the Government has granted guarantees to loans in favour of the various branches of industry up to a maximum limit of L. 40,100,000,000 (the loans actually granted to the engineering branch enjoying these guarantees are presently unknown), and has thus extended that "dual-debt system" which is acquiring in Italian government finance a chaotic expansion (23).

13. - The variety of the forms and the dispersion of government help, which is made obvious by the enumeration of these measures, justifies the judgment expressed on government action in this field during the two post-war years to which we have referred.

(21) D.L. of the Provisional Head of the State, 12-8-1947, N° 987.

(22) As appears from what has been above set forth, the interventions made in the exclusive interest of the ship-building industries have been of particular importance. Unlike most of the financial assistance granted to other branches of industry which are a typical feature of this post-war period, the facilities granted to the shipbuilding and shipping industries, represent bringing up to date legislation dating back many years, and find their *raison d'être* in the difficulties which for some time past have characterised this branch of industry. Besides the facilities above mentioned we may recall the following:

(a) ship-owners who intend to refit their wrecked ships are entitled to a special contribution up to a maximum of 40 % of the expense incurred.

(b) ship-owners who intend to build merchant ships are entitled to a special contribution to the sinking-fund and for interest costs, varying in amount according to the nature of the ship.

(c) ship-building yards are allowed, for each hundred weight of tonnage on the stocks, a customs' drawback, also of varying amount according to the type of ship, but as a whole for very modest sums.

For the facilities mentioned under letters (b) and (c) (now regulated by the D.L. of the Provisional Head of the State, 26-6-1947, N° 779) a credit of 5 milliards has been entered on the budget.

(23) See E. Cambi, in the *Rivista Bancaria*, October 1947, p. 54.

Above all there has been an absence of a coherent and systematic direction of economic policy, capable of checking the pressure brought to bear by special interests, and of settling instead of merely palliating the problems that had to be faced. Both the advances and the assignments have for the most part been granted more in view of the need of immediate assistance than in conformity with long-sighted policies, and for political rather than for strictly economic considerations. While it cannot be denied that this has always been the case in periods following on wars, on the other hand we should not forget that these interventions have helped to spread inflationary tendencies. Granted, as they have almost always been, without any guarantee of "steady value", they have contributed to nourish the inflationary attitude of mind of astute borrowers ready to take advantage of the progressive lightening of their debt liabilities. Lastly, it must be noted that sometimes the credit institutes themselves, faced by insistent, powerfully supported, and urgent requests, have limited their precautions when granting credit to making a summary estimate of the guarantee afforded by the capital of the plants and have availed themselves of government guarantees without strictly enquiring into the opportunities the undertakings had for earning an income under rapidly changing conditions.

14. - This sketch of government assistance should be completed by a statement of the assignments made by the other credit organisations. We have already referred to the 36 milliard lire supplied by the I.R.I. With its ordinary resources the I.M.I. has extended from June 1944 (liberation of Rome) to September 1947, further loans for amounts totalling some 2 milliard lire, of which 1,021 millions to the engineering trades. The C.S.V.I. — apart from the 8,500 millions supplied to the I.R.I. and the *Finsider* which have therefore already been taken into consideration — has lent less than 500 million lire to private engineering concerns. The *Mediobanca*, during its first business year, which closed on June 30, 1947, has assigned to the engineering industry about 500 million lire.

If we look at the credit grants made by

the deposit banks, *i.e.* by the banking system proper, we find outstanding at the end of 1946 a volume of credit amounting to 34 milliard lire as compared to 12.2 outstanding on December 31, 1945, and 2.7 approximately at the end of 1936. The details of these amounts are given in the statistical appendix to this issue (Table E). When we take lira depreciation into consideration and the exceptional charges incurred by the engineering industry, the weakening of the real support obtained from the banks becomes evident, even if the quota of total bank credits allotted to the engineering branch has remained almost unvaried as compared to the pre-war situation (from 7.61 % in 1938 to 8.24 % in 1945, and 8.58 % in 1946). It may also be of interest to note that this quota has progressively declined from the maximum of 14.8 % in 1942, while that of the textile industries has risen from about 6 % to 9 %. Moreover, a notable portion of the bank credits granted to the engineering trades is to be ascribed to the existence of the government guarantee and the assistance given by the Treasury for the payment of the interest due. The 34 milliards above mentioned are not inclusive of the amounts granted by the banks to the I.R.I. and to its dependent financing societies (*Finmare* and *Finsider*) which in Table E are included in other groups of borrowers.

Of the 100 million dollar credit granted by the *Eximbank*, the engineering trades will receive 39,830,000 dollars.

The F.I.M.'s methods and principles.

15. - In the summer of 1947, the financial bottle-neck in the engineering industry, already apparent, made itself felt in a most serious manner, especially in the case of some great undertakings. The credit shortage coincided with a marked depression on the stock-exchange which destroyed all hopes in the possibility of recourse to the financial market. Only two sources of capital remained, foreign capital and that of the State. The loan from the *Eximbank*, finally arranged in August for the amount above mentioned, must be noted as the first American participation; but the

amount was insufficient, and, in any case, the stipulation of credit agreements was procrastinated until the end of 1947 by preparatory enquiries. There seemed to be no issue from the difficulties which frequently gave rise to disorders, due to the failure to pay wages and the requisite raw materials.

The appeal to the Government for help raised however delicate problems for an Administration which, under the guidance of Prof. Einaudi, was determined not to let the budget deficit rise above the ceiling, fixed at some 300 milliard lire. The fact that the appeal has been received, means that the Minister of the Budget has seen fit to temper the rigour of his initial stand and has deemed it necessary to consider the exigencies of this emergency (24). It was thus that the above mentioned decree of September 8, 1947, was issued to establish, with the help of government appropriations, a special fund for financing engineering enterprises. Of course the former system of indiscriminate subsidies could not be accepted as the basis for the new agreement, and help was to be granted in conformity with the principles of the new financial program.

The guiding principles of the F.I.M. are:

(a) Credits will be granted only for clearly ascertained economic purposes, so as not to waste scanty available means on undertakings whose position is beyond hope (25), or on investments which are not directly productive; economic considerations must however be viewed in function of a systematic program of readjustment in the engineering industry within the framework of the general national interest.

(b) An anti-inflationist mentality must guide the concession of loans, fixing conditions which will eliminate or at least reduce the in-

(24) "This industry — said prof. Einaudi in his speech in the Constituent Assembly in which he illustrated the new measure (October 4, 1947) — deserves not to die. It is an industry that has some particularly important features; it requires a large body of skilled, specialised workers of a kind for which the Italians have a special talent. It is an industry that has obtained remarkable results in the past. It is worth while to make an effort to rehabilitate it and place it in a condition when it can be self-supporting".

(25) "The help given to the engineering industry — Einaudi said — is conditioned on the rehabilitation of the industry itself, and on the contribution the owners of the undertakings will themselves make to secure this rehabilitation" (speech in the Constituent Assembly, October 4, 1947).

centive to have recourse to credit so as to take advantage of an inflationary situation; in each case, there must be a cession of real property on the part of the entrepreneur or a participation of the investor in the business to an extent in keeping with the grant made by the Fund.

I trust that the brief analysis which follows, in which the Decree establishing the Fund and the first program drawn up for its use are examined, will show what has been done to secure the ends in view.

16. - The Fund is formed by the Treasury with:

(a) an immediate endowment of 5 milliard lire;

(b) forty semi-annual payments of 1250 million lire each, as from January 1, 1948 (26).

The Fund is not administered directly by the Government, and the grant of assistance is made by a Committee composed of independent persons who decide on applications by the same rules followed in such matters by banks.

For the ends in view the Fund may only engage in the following operations:

(a) the financing of exports planned by the engineering companies, by the grant of advances in lire at the current rate of exchange against the total or partial surrender of the credits in foreign money arising from the said exports;

(b) the guarantee of capital increases made by the companies and the subscription and purchase of new shares;

(c) the facilitation of the liquidation of the participations held by engineering companies in businesses belonging to other branches of industry, either by the direct purchase of such participations for subsequent sale, or by undertaking to sell them on fixed conditions.

A new provision is now expected which will enlarge the field of action of the F.I.M. by authorising it also (a) to finance exports made against payment in goods or by other

means contemplated by existing commercial agreements; (b) to take the debentures that the companies may issue with the right to convert them into shares within a period of two years.

17. - The nature of the transactions authorized is sufficient in itself to show that the anti-inflationistic aim has been to a large extent secured by the rule that the loans must be of fixed value. Thus:

(a) exports are generally financed against the surrender of credits expressed in foreign exchange, so that the borrower is responsible for any difference in exchange rates resulting from any subsequent devaluation of the lira;

(b) the other operations place the Fund in possession of share securities which it may be expected will rise on the stock-exchange in case of monetary depreciation.

18. - The purpose of increasing production and rationalising the industry (27) have been confirmed by the Committee of the F.I.M. when arranging the first urgent financial help prior to the elaboration of that fuller and carefully co-ordinated plan on which it is now working. The large number of applications sent in, and the variety of reasons adduced in justification thereof, showed the need that the scanty means at the disposal of the F.I.M. be used first of all to assist those enterprises which are, or may become within a given period, "economically sound". This expression refers to those enterprises which it may be expected will be able within a short time to assure, in terms of international prices, an output securing proceeds of a value equal at least to costs (inclusive of course of the sinking-fund) and which are now short of capital to provide for their normal operations (circulating capital) and for the investments needed for reconversion.

For these reasons, the Committee has decided that of the three kinds of undertakings applying to the F.I.M. (undertakings radically

(27) Art. 1 of the decree setting up the FIM states that its purpose is "to facilitate the task of the Italian industrial undertakings in the engineering trades in securing financial liquidity and the systematic development and increase of production, in view also of providing employment for the workers and in connection with exports".

unsound, undertakings that can be rehabilitated, and sound enterprises) the first will be totally excluded, and priority will be given to the second over the third, as these last should be able to secure the financing they require by normal market operations.

Although in practice some exceptions have had to be made to this strict line of conduct, the F.I.M. does not intend to accept the criterion previously in use of making a hurried examination of the economic and technical situation of the several businesses and then to rush to salvage them on the pretext of "extreme urgency". Any effort at rehabilitation would be rendered vain by the grant of irregular and unsystematic help. The Committee of the F.I.M. therefore welcomes the criticism blaming it for being too "niggardly" in granting the tax-payers' money; it has no intention of becoming a charitable institution.

Within the above limits, the F.I.M. provides, in this first stage of its work, for the more urgent cases; here again it always exercises due caution; but in the second stage it will direct its activity so as to secure that rehabilitation of the industry which is the goal justifying its existence.

The engineering trades now occupy a central position in that typical group of processing industries which are in need above all of two things: reconversion and insertion in the international market. In the writer's opinion the directing action of a credit policy can only assure rationalisation and rehabilitation if the needs of the whole range of the engineering industry is borne in mind; it cannot be done by limiting the purview to that of a single undertaking. Even if a general plan for the whole branch of industry is not undertaken, yet, if the F.I.M. wishes to direct the industry in a certain given direction, it must be in a position to arrange in advance a carefully planned program and to finance "work programs" rather than "undertakings".

When the matter is looked at in this light, it will be seen that it is evidently impossible for the F.I.M. to restrict itself, when granting credits, to the mere examination of the real and personal security that the undertakings can offer. The best guarantee, the only really

effective one, is afforded by a reasonable business program. The Government would be wasting the tax-payer's money were it to offer loans, even with personal and real guarantees, to undertakings that cannot secure profitable results and who are engaged in lines of production for which there is no market demand.

The task is a vast and difficult one; overcoming the tendencies favoring the crystallisation of existing structures, it must guide the engineering trades to organise on new technical bases and scales; it must encourage and facilitate the specialisation of the labour forces and factories; it must allow the modernisation of the plants and develop technical and scientific research work.

Energetic and rapid action must be taken on these matters if we are to avoid finding ourselves, in two years' time, and notwithstanding all the financial help that may be given, in such a condition as to despair of the very existence of an engineering industry in Italy.

19. - The principles guiding the action of the F.I.M. are, of course, themselves conditioned by the general economic situation and the problems it presents.

The first thing to do will be to plan the credits in relation to available supplies of raw materials. Under present market conditions it is not enough to provide the undertakings with cash credit; it is essential to make sure that these credits can be converted into real supplies. The problem is that of using a volume of materials considerably smaller than needs, and to use it to the best advantage, both for assuring those kinds of production which are deemed most valuable, and so as to allow of fuller employment. The F.I.M. cannot allow the assistance it gives to become an instrument for increasing the competition between the various companies to secure most of the small supplies of raw materials available, thus driving up their price. It is therefore easy to understand why the F.I.M. has called the attention of the Government to the need of rationing the distribution of raw materials in accordance with priorities to be determined, and to see that the financial help planned by the F.I.M. does not follow directions in contrast with or independent of that scale of priorities, while at

the same time the direction given to the engineering trades by the several government organs should be coordinated.

20. - The action of the F.I.M. must not only be coordinated with a rational plan for the distribution of the scanty supplies of material goods available; it must also be inserted in a whole body of initiatives—some of which are already being carried out while others are being studied—so that the results of each may fit in with those of others to secure the maximum results.

(a) The social aspect of the problem is the one that emerges. The representatives of the workers, fearing that the undertakings may close down, bring pressure to bear on the Government to intervene to prevent this, and they rightly demand that the wages due them and not yet paid should be settled. Evidently the F.I.M. can only call attention to this state of affairs; it is the business of the Government to examine it. But the judgment of the Committee might be troubled by anxieties as to the inevitable consequences for large masses of workers of a negative decision, and therefore it would be advantageous if the Government were to take the steps deemed most advisable to provide for those workers who might be adversely affected.

This is the reason why the presidency of the F.I.M. has secured a first decree (28) assuring the workers of the undertakings—which may be declared insolvent and placed in liquidation—that their arrears for wages and the dismissal indemnity to which they are entitled will be paid.

More important is the problem of the productive efficiency of labour. The low yields now obtained are the direct result of the lack of vocational training, referred to above. It is therefore necessary to encourage a higher degree of specialisation among the workers and to raise their technical skill by means of a whole network of training schools suitably located, ranging from those for workers to post-university courses for managers. This is a question of capital importance for the economic

future of the country, and one which cannot be undertaken by the individual business concerns. The Government is now considering the measures to be taken.

(b) The creation of the *Finmeccanica* (a Financial Company which will bring together the engineering concerns controlled by the I.R.I.) will mark undoubtedly another important step for securing rational solutions of the problems under consideration. It is the duty of the F.I.M. to finance both private engineering business and those controlled by the I.R.I., some of which, as above stated, are now up against very serious difficulties. Now, the formation of a central co-ordinating body for the whole group of the engineering concerns controlled by the I.R.I. should confer on the work of rehabilitation a more systematic and unified character and should prevent—by timely agreements and connections between the F.I.M. and the *Finmeccanica*—the dispersion of initiatives and efforts.

(c) If the rational development of the resources offered by the home market and the planning of a courageous economic policy will undoubtedly facilitate the solution of some of the problems, nevertheless the marked disparity between the resources of the Italian financial market and the needs of the undertakings, continues unabated and is a factor that threatens to wreck any plan for rationalisation and re-conversion, or at least to restrict it within unduly narrow limits.

Foreign investments therefore acquire for Italian economy in general, and more especially for the engineering branch, that essential character to which more than once attention has been called by highly qualified persons. Flanked by such investments, the economic policies adopted by the Italian Government might acquire an efficient value which otherwise objective reasons would deprive them of. In this connection, interesting forms of collaboration should arise between foreign financing institutions and the F.I.M., whose characteristic features would fit it for acting as a connecting link between foreign investors and the Italian undertakings.

21. — The special character of the F.I.M. is shown by these notes. It is an organ which can grant both commercial, medium and long-term credit. As it has been set up at a time when the halt in the steady expansion of bank credit made the lack of circulating capital keenly felt; the F.I.M. is called on to fulfil the dual task of financing the productive cycle and of assisting the undertakings in the complex process of structural change. Its range of action thus extends to a whole series of operations differing in their nature and in the methods by which they must be carried out. This diversity gives rise, of course, to many delicate questions in the technical field and in that of business organisation, but, on the other hand, it has the advantage of enabling the F.I.M. to follow in their various aspects the whole of the reciprocally inter-dependent problems which the engineering trades must tackle.

As the F.I.M. is not a profit making concern the rate of interest charged has been fixed at a lower figure than that of the market, but not lower than the cost of money (29) and of the risks taken into consideration. This rate has been fixed for the first period at 7%, but it may, of course, vary in the future and may also vary in relation to the situation of the individual firms.

As a result of its juridical structure the F.I.M. belongs to none of the standard types of financing institutes. It offers an example of those new forms of public institutes which are arising in the organisation of economic life to meet new requirements of a social character.

In the F.I.M.—which is not a juristic person—we can discern:

(a) the lender of the money—who is the Ministry of the Treasury—who controls, *a posteriori*, the management of the Fund;

(b) The administrator of the Fund, who is a special Committee of experts and govern-

(29) The 10 milliard lire (equal to 4 annuities) which had to be made immediately available in addition to the original 5 milliards, have been discounted at the rate of 5.8%. The discount rate to the subsequent annuities will probably be higher. It would not be possible to place on the market a money at a lower rate than 6.40%.

ment officials. The Committee possesses deliberative powers; it should be considered as a government organ, but one outside the normal government ranks, enjoying independence in taking its decisions, subject only to the obligation of submitting annually to the Minister of the Treasury a report on the work it has accomplished.

(c) the executive—which is the I.M.I., a public law institute—vested also with the functions of representation in its dealings with the borrowers and with third parties. The action of the I.M.I. is however always subordinated to a decision taken by the Committee.

This special structure has avoided, on the one hand, the need of creating a new public juristic person, and, on the other, the direct management of the Fund by government organs technically unsuited to such duties; and it has also avoided the need of entrusting a special and temporary service to other organs already held to be over-burdened with their own special tasks.

22. - The problem of financing the engineering industries which has given rise to the F.I.M.—a problem to a great extent still unsolved for other industries—has brought to the fore the question of the limits to private and government banking operations, and reintroduces the old request for a qualitative distribution of credit. The subject of industrial planning and the need of government guidance, especially in periods of serious economic disease, has been presented by a liberal Minister. The experiment is a daring one, and it is difficult at this time to judge what the result may be; but it shows that in the irreversible process which leads to the wider intervention of collective bodies—a process which is not confined to our country—a laborious effort is being made to forge the necessary instruments. The classic forms of government intervention are making room for others which seek to avoid depressing private enterprise while directing productive activity by means of the planned allocation of credit? The future will show whether this is so.

(28) D.L. of the Provisional Head of the State of 17-10-1947, N° 1134.