

# Aspects and Problems of the Italian Stock Market

by  
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1. - For some time already Italian economic and financial circles have been expecting the repeal of the extraordinary progressive tax on dividends, and the revision of existing regulations on the investment of foreign capital in Italy and on the revaluation of stock-capital for monetary adjustment.

In the general expectation these measures should have eliminated most of the difficulties met in the financing of Italian Companies. A repeal of the tax on dividends added to a revaluation of assets, consented in a measure adequate to the actual depreciation of the lira and exempt from heavy taxation, would, it was believed, favour at the same time a revival of the depressed stock markets and the direct flow of investments to production. Moreover, the unhindered flow of foreign capital would add to the investment of national savings, which are inadequate to cover the requirements of recovery and reconstruction.

After having been frequently discussed by the Council of Ministers and examined several times by expert committees, these measures were finally formulated in Decree No. 49 of February 14, 1948 and Decree No. 211 of March 2, 1948. But, judging by the criticism to which they gave rise, they did not meet with the approval of the parties concerned, being considered as excessively restrictive and, in any case, inadequate to the desired ends.

A study of the measures contained in the two Decrees and of the principles on which they are based leads us to consider the objective conditions at the time of their publication, making a rapid survey of the circumstances of the stock market during these last years.

2. - The technique of the so-called "monetary circuit" adopted in Italy during the war

in order to re-absorb on behalf of the Treasury the availabilities of the market swollen by public expenditure, has already been dealt with in this review (1). With regard to the stock market it consisted of a series of exceptional measures—in addition to those already in force since the time of the military campaign in Ethiopia (2)—which aimed mainly at favouring the investment of liquid assets in State securities; investment in equities was at first rendered less profitable and, later, more and more burdensome.

The series of restrictive measures started in July 1940 with the *special tax on excess profits deriving from the state of war* (Law No. 813 of July 1, 1940), which represented a progressive yearly burden of from 10 to 60 per cent of the profits from commercial and industrial activities exceeding the so-called normal in-

(1) MARCELLO MANCINI: *The Italian Money Market and the Financing of the Treasury*, in this Review, July, 1947, p. 100.

(2) These measures are:

Decree No. 1627 of September 7, 1935 concerning the institution of the so-called "coupon tax" (*imposta cedolare*), a ten per cent tax on dividends and the interest accruing to holders of unregistered stock issued in Italy by companies and concerns other than the State; the issuing company had to levy this tax from the stockholders. The aim of this tax was to stimulate the conversion of bearer stock into registered stock, in order to avoid any evasion of the general income tax on total income (*imposta complementare*);

Decree No. 1744 of October 5, 1936 obliging stock companies (with the exception of municipal concerns) to pay a tax on the dividends distributed with strongly progressive rates. After the alterations resulting from the application of the extraordinary tax on the capital of joint stock companies, which was introduced in October 1937, the tax on dividends fluctuated between 5 per cent (for dividends between 8 and 9 per cent of the capital plus the reserves as shown by the balance-sheet) and 60 per cent (for dividends of over 14 per cent). The aim of this tax was to keep the distributed profits within the non-taxable limits and accumulate the excess in the form of reserve funds.

come (3). The severity of this tax, however, was mitigated by the faculty to transfer to capital part of the reserves, without hitting them with the tax on dividends and the "coupon tax". Thus, without any change taking place on the actual assets of the concern, it was possible, by means of negotiating options, to distribute higher profits without the burden of the two above-mentioned taxes and to increase the ordinary income which was free from the excess profits tax. But later on, these advantages were also neutralised. Some months later, in order to eliminate speculation and improve the economic situation of the businesses sums transferred to capital were subject to a 100 per cent tax (Decree No. 1714 of Dec. 27, 1940). In addition, a measure which had been repealed in 1936 was adopted again, limiting the distribution of profits from any company to a maximum level of 7 per cent of the capital paid up, or to the figure of the last yearly dividend or of the average dividend for the last three years, reduced by one-eighth in both cases.

Further, in another Decree (No. 1713 of December 27, 1940) the "coupon tax" was raised from 10 to 20 per cent for shares, while remaining unchanged for fixed-interest stock.

However, these restrictive measures did not succeed in preventing a rise in quotations. The heavy demand for stock, due to the larger amount of capital to be invested, was not offset by an adequate supply. And this not only because the holders of stocks and shares wished to keep them, but also because, in the meantime, a check had been placed on the formation of new companies, as well as on capital increases and on the issuing of stock by already existing concerns, which had to secure prior Government permission whenever the stock issues or capital increases exceeded a total of one million lire. (4)

(3) According to the law, the normal income for companies and businesses that are taxed on the returns of their balance-sheets is the income assessed for income tax for the years 1937-1938.

(4) This measure—already contained in Decree No. 1613 of September 5, 1935 valid until June 30, 1939—had then been extended for one year (Law No. 938 of June 22, 1939), at the end of which term it was again extended until the coming into force of the new Civil Code (Law No. 495 of June 13, 1940).

Other Decrees were passed, therefore, to check the activity of the stock market and prevent excessive speculation.

In July 1941 a tax was placed on the surplus value (5) of shares quoted on the Stock Exchange (Decree No. 647 of July 15, 1941), with progressive rates from 10 to 50 per cent. As the system of assessment proved ineffective in practice, owing to the fact that, in order to evade the higher rates, sales were split up so as to keep the surplus value within the limits on which the lowest rate was levied, shortly after (Decree No. 1014 of September 27, 1941) the tax was transformed into a proportional one at the uniform rate of 20 per cent, and extended also to shares not quoted on the stock exchange. This extension was made necessary by the shifting of stock exchange transactions from shares quoted to those not quoted and by the favoured situation in which the latter found themselves.

The same Decree increased the tax on registered stock transfers from 3 to 6 per thousand (6), while shares changing hands were further hit by a 4 per cent transfer surtax on the full price of cession, to be paid by the purchaser. (7)

At the same time as these transfer taxes, one of the most burdensome measures was adopted, which is still in force today, namely the compulsory registration of shares issued by companies with their headquarters in Italy (8).

(5) The law considered as a surplus value the difference between the price at which the shares were sold and a reference price determined by various principles according to the period in which the transaction took place.

(6) The transfer tax, laid down in Decree No. 1280 of December 30, 1923, applies to certificates, bonds and shares, both registered and bearer. It is paid yearly on the value of the securities, on the basis of the average quotation for the previous year. As from 1942 this tax was fixed at the rate of 6 per thousand both for registered and bearer stock (Decree No. 1014 of September 27, 1941).

(7) The conversion Law No. 1469 of December 29, 1941, increased this tax to 5 per cent; but instead of on the price of cession, this was calculated on the difference between this price and the nominal value of the security. Later, Decree No. 1398 of December 4, 1942 fixed the tax at 4 per cent again for shares not quoted on the stock exchange, to be calculated on the whole price of cession, as it had been seen that the contracting parties succeeded in evading by attributing fictitious values to the securities.

(8) The compulsory registration of shares had existed for credit institutes since March 1926 and was introduced by the Banking Law which, however, provided for certain categories of bearer shares. A Ministerial Decree of June 22, 1941 ex-

Decree No. 1148 of October 25, 1941, fixed the limit for registration at June 30, 1942; it provided that unconverted shares would be deprived of all their rights, extended the coupon tax to registered shares and issued a ban forbidding companies to own shares in other companies to a value exceeding that of their own capital.

Although the object of this law was mainly fiscal, it tended also to restrict the share market, which had only been slightly affected by previous measures.

Even this new attempt did not succeed in modifying the upward trend of quotations, although it somewhat slowed down the rate of increase. It was for this reason that in November 1942 (Decree No. 1316 of November 21, 1942) a new and more drastic measure was adopted concerning purchasers of shares: compulsory investment in a special series of 3 per cent Treasury Bonds of a sum equal to the amount of shares purchased. In this manner, the purchase of shares being connected with that of fixed interest bearing securities, the advantage of the investment made as a safeguard against currency devaluation was neutralised.

Further, within the framework of the policy tending to limit investments not corresponding to immediate war requirements, in April 1942 (Decree No. 322 of April 7, 1942) the compulsion to ask for prior Government permission for any issue exceeding one million lire was extended to a date six months after the cessation of hostilities (9) while the following month (Decree No. 520 of May 21, 1942) newly formed companies were obliged to in-

tended this compulsion to the stock of companies having their headquarters in Italy, but circulating abroad, and Decree 1750 of October 24, 1942 extended it to companies having their headquarters in Libya.

(9) The Decree of February 15, 1946, No. 161, extended the obligation until December 31, 1946, but raised from 1 to 10 million the limit beyond which the Companies were required to apply for the prescribed authorisation, which had, however, to be applied for in any case and for any amount when the Company was one whose securities were quoted on the stock exchange. A further extension until December 31, 1947 was introduced by the Decree of January 4, 1947 which provides, regardless of whether the securities are quoted on the stock exchange or not, that the Companies shall not apply for authorisation for amounts not exceeding 100 million lire. The latest measure is the Decree of February 3, 1948, No. 162, which extends the aforesaid obligation until December 31, 1948.

vest in 3% Treasury Bonds a sum equal to 20 per cent of the subscribed capital (10).

Lastly, in order to safeguard national assets against the influence of foreign capital (Decree No. 807 of July 24, 1942), not only the purchase of real estate and business concerns by foreign nationals but also the subscription to and purchase of shares in companies working in Italy required prior authorisation from the Government.

Thus, the aim to direct all available monetary assets flowing on to the stock market towards State securities resulted in a more and more complicated and burdensome legal structure. The summarised list of the most import-

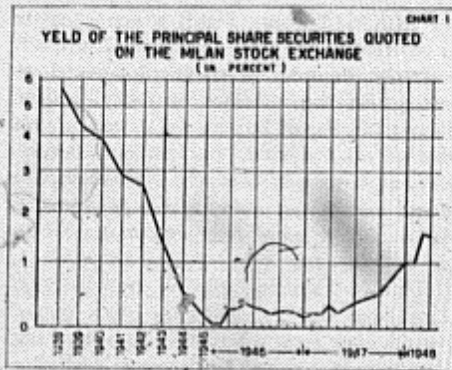
TABLE I  
MOVEMENT OF ITALIAN JOINT-STOCK COMPANIES  
(millions of lire)

Year	New companies formed <sup>1</sup>	Increase of capital <sup>2</sup>	Total <sup>3</sup>	Reduction of Capital <sup>4</sup>	Net variation over the period <sup>5</sup>
1	2	3	4=2+3	5	6=4-5
1938	341	6,568	6,909	1,474	+ 5,435
1939	525	4,396	4,821	1,682	+ 3,139
1940	693	5,701	6,394	1,642	+ 4,752
1941	472	7,849	8,321	1,554	+ 6,767
1942	248	8,184	8,432	5,773	+ 2,659
1943	385	2,596	2,981	1,807	+ 1,174
1944	566	1,463	2,029	1,607	+ 422
1945	566	1,463	2,029	1,607	+ 422
1946 (a)	3,527	13,043	16,570	1,030	+ 15,540
1947	5,568	104,850	110,418	1,321	+ 109,097

(a) Provisional data.

ant measures adopted shows that the basic line followed by the law-makers in their attempt to restrict the activity of the Stock Exchange was twofold. First, it aimed at reducing the yield on shares, so as to weaken the incentive to such investment. Secondly, it aimed at making the transfer of securities from one bearer to another less and less profitable in order to check speculation. Nor should the various obstacles be neglected which hindered the flow of capital to existing or newly-formed concerns not connected with war requirements (see Table I), which aimed at preventing an increase in the volume of floating stock on the market.

(10) With somewhat different methods and percentages this compulsion was extended also to the capital increases of already existing companies.



Although all these measures resulted in a lowering of the interest on shares and a reduction in the volume of transfers to a negligible figure, they did not succeed in checking the in-

crease in share quotations or in causing a greater preference for public funds.

Between 1940, and the first half of 1943, the index number for the principal share values (calculated by the Economic Department of the Bank of Italy) was characterised by a general upward swing, only interrupted for short periods by a fall resulting from the application of the measures we have discussed.

Obviously during those years the public sought protection from the progressive depreciation of the lira by investing in equities. A logical explanation of this phenomenon can therefore be found in the currency factor, certainly not in the return on capital which, owing to the restrictive system applied to dividends and to increased share quotations, was reduced to a lower level than had ever been reached before (see Chart I and Table II).

TABLE II  
YIELD OF THE PRINCIPAL SHARE SECURITIES QUOTED ON THE MILAN STOCK EXCHANGE

Date	Financial and Insurance	Textile	Minerals, Metals and Engineering	Electrical and kindred	Sugar and Chemical	Real Estate	Sundry	Total Share Securities
1938 December	5.07	6.56	3.60	5.91	5.18	4.64	5.15	5.67
1939 "	4.16	3.93	4.18	4.37	4.78	3.94	4.50	4.32
1940 "	4.36	3.70	3.84	3.77	4.62	3.18	3.51	3.89
1941 "	3.67	2.43	1.18	2.69	3.21	1.86	2.75	2.88
1942 "	3.60	3.88	3.16	2.26	2.82	1.69	2.28	2.64
1943 "	1.62	1.46	2.25	1.12	0.93	0.60	1.21	1.35
1944 "	0.61	0.40	0.92	0.41	0.50	0.18	0.51	0.52
1945 "	—	—	—	—	—	—	—	—
1946 January	—	—	—	—	—	—	—	—
" February	—	—	—	—	—	—	—	—
" March	0.64	0.08	—	—	—	—	—	—
" April	0.79	0.17	0.04	0.30	0.44	0.26	0.15	0.25
" May	0.66	0.50	0.03	0.33	0.47	0.46	0.21	0.27
" June	0.54	0.38	0.03	0.28	0.40	0.41	0.16	0.25
" July	0.36	0.29	0.02	0.33	0.31	0.50	0.30	0.29
" August	0.26	0.23	0.02	0.22	0.36	0.40	0.22	0.27
" September	0.31	0.25	0.02	0.26	0.38	0.30	0.15	0.20
" October	0.32	0.24	0.02	0.28	0.36	0.34	0.17	0.23
" November	0.18	0.18	0.02	0.28	0.38	0.37	0.19	0.24
" December	0.14	0.14	0.02	0.27	0.33	0.28	0.16	0.21
1947 January	0.23	0.12	0.02	0.21	0.27	0.22	0.13	0.16
" February	0.20	0.12	0.02	0.21	0.28	0.25	0.05	0.21
" March	0.21	0.24	0.52	0.22	0.27	0.24	0.61	0.20
" April	0.18	0.28	0.52	0.22	0.23	0.17	0.52	0.32
" May	0.11	0.49	0.36	0.14	0.15	0.14	0.37	0.21
" June	0.25	0.49	0.32	0.18	0.12	0.18	0.49	0.29
" July	0.17	0.62	0.36	0.20	0.14	0.22	0.80	0.36
" August	0.32	0.67	0.43	0.23	0.15	0.26	0.91	0.41
" September	0.32	0.60	0.42	0.33	0.41	0.23	0.80	0.45
" October	0.57	0.69	0.47	0.39	0.45	0.27	0.90	0.51
" November	0.62	0.91	0.64	0.49	0.56	0.31	1.14	0.68
" December	0.78	1.27	0.76	0.61	0.65	0.37	1.44	0.85
1948 January	1.60	1.41	0.96	0.73	0.61	0.81	1.28	1.03
" February	1.44	1.26	1.16	0.71	0.57	0.74	1.14	1.02
" March	1.68	1.36	3.53	0.82	0.62	0.84	2.12	1.59
" April	1.32	1.17	3.37	0.96	0.50	1.09	1.66	1.53

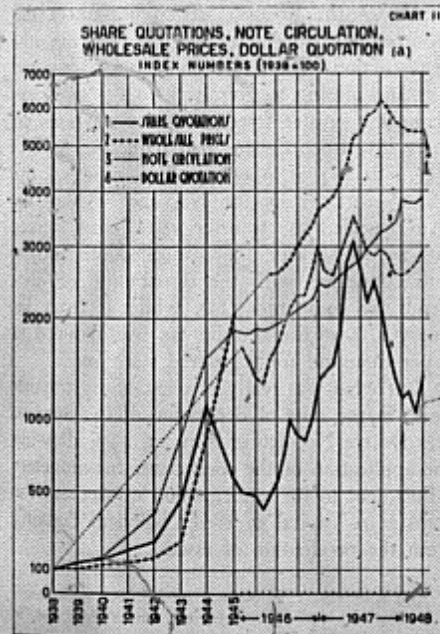
Source: *Bollettino* of the Economic Department of the Bank of Italy, no. 125 December 1947, pp. 68-69.

The economic significance of the upward trend is apparent, if one compares the development of the index number for shares with that for wholesale prices (11) and circulation.

During the first months of 1943 the authorities themselves realised the expediency of allowing a revival of activity on the share market. This change of direction gave rise to a certain loosening of the restrictive measures, the application of which had had the most drastic effects.

Decree No. 235 of April 12, 1943 repealed the compulsion to invest in the special 3 per cent Treasury Bonds, both when purchasing shares and when founding a joint stock company or increasing capital. The same Decree repealed the tax on the surplus value which was embodied in the transfer surtax. The latter underwent a structural change on this occasion; instead of a standard rate on the selling price, the surtax was applied at two different rates,

(11) The index number for wholesale prices was calculated, up to 1943, only on the basis of official prices, whereas it was well known that, from the very beginning of the war, there was a considerable difference between official and black-market prices.



(a) See explanatory notes of Table III.

TABLE III  
SHARE QUOTATIONS, NOTE CIRCULATION, WHOLESALE PRICES, DOLLAR QUOTATION  
(Indexes 1938=100)

Year	Share Quotations (a)	Note Circulation (b)	Wholesale Prices (c)	Dollar Quotation (d)
1938	100	100	100	—
1939	135	139	104	—
1940	155	164	122	—
1941	195	258	136	—
1942	228	379	153	—
1943	455	469	229	—
1944	1,136	1,532	858	—
1945	588	1,871	2,060	—
1946 January	502	1,837	—	1,675
" February	498	1,825	—	1,538
" March	479	1,881	—	1,388
" April	413	1,876	—	1,317
" May	481	1,888	2,582	1,543
" June	571	1,932	2,593	1,689
" July	741	1,993	2,675	1,902
" August	1,010	2,042	2,791	2,131
" September	896	2,111	3,011	2,299
" October	858	2,176	3,176	2,299
" November	1,079	2,236	3,356	2,653
" December	1,353	2,462	3,638	3,002
1947 January	1,426	2,418	3,757	2,613
" February	1,502	2,459	3,898	2,571
" March	1,844	2,553	4,139	2,841
" April	2,760	2,637	4,536	3,152
" May	3,116	2,712	5,203	3,519
" June	2,681	2,808	5,339	3,267
" July	2,251	2,976	5,779	2,958
" August	2,501	3,106	5,889	2,860
" September	2,185	3,241	6,202	2,966
" October	1,695	3,301	5,991	2,865
" November	1,360	3,408	5,651	2,599
" December	1,799	3,220	5,456	2,569
1948 January	1,247	3,793	5,380	2,626
" February	1,088	3,765	5,343	2,732
" March	1,399	3,867	5,318	2,935

(a) The index numbers, refer to the quotations of the leading shares, listed at the Milan stock-exchange (5 financial and insurance, 5 textile, 9 mineral, metal, engineering, 9 electrical and kindred, 5 sugar and chemical, 3 real estate, 4 other securities). They are compiled by the Economic Department of the Bank of Italy.

(b) Inclusive of the Bank of Italy notes, State notes, and, since 1943, Am-lire.

(c) Index numbers compiled by the Central Institute of Statistics. For the years 1943-45 the index numbers are provisional and have been taken from the Statistical Yearbooks "Annali di Statistica", Series VII, vol. 1, p. 19.

(d) Index number of the price of the dollar note on the Milan black market. As the basis for the calculation for 1938 it has been deemed advisable to adopt the economic-parity rather than the official one (19 lire=1 \$), which did not correspond to the level of prices on the home market in Italy and in the U.S.A. The economic parity 1938 (22.62 lire=1 \$) has been calculated on the supposition that it coincided with the official parity of 1929. Considering that in 1929 the official parity was 19.09 and that in 1938 the wholesale price index on the basis 1929=100 was respectively 97.76 for Italy and 82.48 for the U.S., the coefficient obtained is 1.185 so that 19.09 x 1.185 = 22.62.

both on shares quoted on the stock exchange and those not quoted, namely, 3 per cent on the selling price up to the nominal value and 20 per cent on the portion exceeding this value. For option rights and enjoyment shares there was only one rate, equal to 20 per cent of the selling price.

The "coupon tax" which had meanwhile been raised from 20 to 25 per cent was reduced to 15 per cent in November 1943, the company being permitted to place to their own account a quota of 5 per cent. (12).

This trend towards a relieving of the market was then checked by political and military events and a fresh start could not be made until the liberation of Italy was completed.

Although only partly freed from the restrictions, share quotations during the period from April 1943 to December 1944 reacted promptly to the growing inflation, encouraged by large issues of paper money, and to the psychological attitude of the people who were more eager than ever to invest their money in real values. By the end of 1944 the general index for shares on the Milan Stock Exchange had risen to 1136 as compared with 100 in December 1938.

3. - In January 1945 share quotations showed a sudden downward trend, which lasted for the whole year and until April 1946. (see *Chart II, and Table III*).

When the whole of Italy was united again (April 1945), the monetary factor, which had so far determined the trend of the market, became a secondary factor and new factors came into action. The necessity of reviving production, replenishing depleted stocks and repairing war damage, caused a number of businesses to start selling the shares in which they had previously invested part of their circulating capital with the aim of avoiding the consequences of depreciation. Further, rumours concerning the nationalisation of businesses, together with the difficulties besetting a satisfactory revival of production, such as shortage of raw materials and fuel, inadequate transport, obstacles to foreign trade, etc., caused the public to lose interest in this type of investment.

To the above reasons should be added the

(12) With Decree No. 384 of October 19, 1944, the rate was reduced to 10 per cent.

economic changes that were an indirect consequence of the war, such as the shifting of wealth and the redistribution of income to the advantage of the social classes traditionally given to hoarding bank-notes and quite unfamiliar with equities.

These are the fundamental causes of the depression which lasted over sixteen months and which brought the index for share values down to a level that hardly seemed to be justified even by the negative aspects of the situation. With the exception of a temporary halt in October and November 1945, following the return to future delivery transactions, on the Milan stock exchange quotations showed a continuous downward trend, although the transfer surtax had meanwhile been reduced from 25 to 3 per cent (Decree No. 301 of May 25, 1945). In fact, the general index number, which had reached the level of 1136 in December 1944, dropped to 891 in June, to 588 in December 1945 and to 416 in April 1946, despite the fact that at that date the volume of note-circulation had reached a total almost 18 times the 1938 level and wholesale prices had reached a still higher level (see *Chart II*).

Under the pressure of circumstances the Government issued some Decrees revoking other restrictions that had been in force since the war and aiming to give back to the stock exchanges a greater freedom of action; taxes on share investments were also reduced. So Decree No. 403 of May 14, 1946 repealed the "coupon tax", Decree No. 420 of May 14, 1946 repealed the transfer surtax and Decree No. 497 of May 17, 1946 cancelled the restrictions connected with the distribution of dividends by companies (13), while as from January 1, 1946 the transfer tax was reduced to 3 per thousand for registered stock only.

But what was really of outstanding importance, in the state of depression of the market, was Decree No. 436 of May 27, 1946 allowing the application of the coefficients for monetary adjustment to the amortization quotas and the transfer to capital of credit balances deriving from the revaluation of assets.

(13) With regard to profits, however, the extraordinary progressive tax imposed in 1937 remained in force and, in practice, reduced the advantage ensuing from the repeal of the above restrictions.

4. - The progressive depreciation of the lira from 1939 onward had resulted in the assets forming the fixed capital of the companies being set down for nominal values no longer in accord with their actual values. Naturally, the farther back was the time of their being written down on the balance-sheet, the greater was the incongruity.

The most serious drawback of this situation was that amortization quotas, calculated on the basis of the old purchasing power of the lira, weighed less and less in determining production costs. Costs on paper being therefore lower than actual costs, fictitious profits were made and consequently dividends were distributed that were actually part of capital. As regards taxation, the concerns administered as companies—which are taxed in Italy on the returns of their balance sheets—had to pay taxes on income that in reality was not such.

All this throws light on the need for a revision of balance-sheet values; a common monetary denomination should be found to values previously measured in lire of different purchasing power.

Capital revaluation through monetary adjustment was not a new problem in Italy inasmuch as measures to this effect (Decree No. 163 of February 4, 1937) had already been taken as a result of the lira alignment of October 1936. The application of coefficient 1.6932, resulting from the ratio between the gold parity fixed for the Italian lira by the stabilisation law of December 1927 (mmg. 7.939/113) and that laid down by the law of October 1936 (mmg. 4.677), was allowed in order to obtain a more adequate determination of amortization quotas; at the same time it was explicitly forbidden to distribute revaluation balances to shareholders or to use them to increase capital (14). Moreover, these balances could not

(14) A partial derogation from this ban was provided, when the special tax on the capital of joint-stock companies was laid down, in order to facilitate payment. (Decree No. 1729 of October 19, 1937). Balances resulting from revaluation could be distributed to shareholders in the form of an issue of free shares for a nominal value not exceeding double the amount of the tax due or could be used to reconstitute capital that had depreciated between 1931 and 1935. This permission, however, was conditional on the simultaneous issue of shares to be paid up in cash to an amount equal to half the shares distributed free.

be calculated as part of the reserves, either, in order to obtain exemption from the tax on distributed profits.

On that occasion the problem of the revaluation of capital assets was not really urgent, since the gradual and not very marked depreciation of the lira had already effected a partial adjustment of values to the new monetary base. The ban on the transfer of balances to capital was more in the nature of a prudential measure enabling concerns to take advantage of this favourable situation to strengthen their assets or to make up for the losses suffered during the period of depression that started in 1929. The measures aimed at limiting the distribution of profits, which were already in force, were inspired by the same principle.

As a result of the striking depreciation of the lira during and after World War II, revaluation through monetary adjustment has assumed far greater importance than in 1936.

Although only of a temporary nature, the first measure adopted in this regard (Decree No. 436 of May 27, 1946) regulated the problem in its twofold fiscal and financial aspect. With the repeal of provisions contained in the Decree of February 4, 1937, it became possible to use credit balances resulting from revaluation to cover losses or for write-ups of capital. In the latter case, however, the companies must at the same time undertake to increase their reserves in the same proportion as already existed between capital and reserves. The use of these balances was exempt from income tax and other contributions.

With regard to the extent to which this revaluation might take place, the Decree provided that the values still appearing on the balance-sheet, and entered between 1928 and 1936 should first be multiplied by the above-mentioned coefficient of 1.6932 (15) and the values thus obtained—as well as for new assets entered on the balance-sheet between 1937 and 1938—should be multiplied by 5. For assets acquired

(15) According to the terms laid down, in Ministerial Circular 3320 of November 28, 1946, for values entered in the balance-sheet before 1927, revaluation is obtained by applying to the costs calculated in gold lire, first the coefficient of stabilisation 3.6661 and then the coefficient of adjustment 1.6932.

after this period the following coefficients have been fixed:

for capital invested in 1939	4.35
" " " " 1940	3.75
" " " " 1941-42	3.15
" " " " 1943	2.50
" " " " 1944	1.25

The same coefficients were naturally considered for calculating amortization quotas which, as from 1944, could be deducted from gross income in order to determine both the income tax and the tax on excess war profits.

5 - As a result of the combined effect of these concessions, in May 1946—after a long period of depression—the share market resumed its upward trend and a process of adjustment started which was logically justified by the general economic situation. This upward trend, which lasted practically uninterruptedly for 4 months, reached its highest point in

August 1946. The general index number for the principal shares rose from 413 to 1,010 with a total increase of 144 per cent.

This recovery, however, has to be considered in connection with the monetary factor. The rise in share quotations coincided in fact (see Chart II and Table III), with the expansion in the volume of currency in circulation and with a further drop in the purchasing power of the lira, shown by the rise in domestic prices and the exchange rates for hard currencies. The alarm caused by this state of affairs manifested itself by the flow of considerable cash assets to the stock exchange where, however, they did not find an adequate counterpart in shares on the market. Special circumstances influenced the public and the trend of speculation, which centred mainly on shares that were expected to attain a big difference in price. A typical instance was the textile industry: foreign trade on a private basis having been resumed and large exports

INDEX NUMBERS FOR THE QUOTATIONS OF THE LEADING SHARE SECURITIES QUOTED ON THE MILAN STOCK EXCHANGE (December 1938=100)

TABLE IV

Date	Financial and Insurance	Textile	Minerals, Metals and Engineering	Electrical and kindred	Sugar and Chemical	Real Estate	Sundry	Total
1946 January								
February	419	856	353	476	521	763	715	502
March	373	877	353	475	487	762	786	498
April	372	865	336	452	487	709	737	479
May	302	811	286	375	436	591	672	413
June	260	1,013	332	422	518	675	767	481
July	439	1,344	368	488	602	753	920	571
August	802	2,208	489	614	567	915	1,308	741
September	675	2,033	594	932	937	1,231	1,806	1,010
October	636	2,117	562	782	895	1,081	1,648	896
November	748	2,796	531	724	837	1,023	1,578	858
December	1,010	3,736	603	815	955	1,356	1,921	1,019
1947 January				1,076	1,190	1,735	2,359	1,353
February	1,042	3,382	1,012	1,133	1,219	1,723	2,481	1,426
March	1,184	4,059	1,132	1,109	1,281	1,772	2,631	1,502
April	1,434	4,976	1,517	1,303	1,483	2,564	3,103	1,844
May	2,407	7,942	2,193	1,947	2,250	3,215	4,376	2,769
June	2,700	8,101	2,849	2,019	2,951	4,174	4,426	3,116
July	2,512	6,457	2,554	1,699	2,563	3,328	3,959	2,681
August	2,051	5,938	1,917	1,413	2,220	2,825	3,474	2,251
September	1,757	6,606	2,226	1,575	2,577	3,234	3,967	2,501
October	1,386	5,338	1,933	1,354	2,325	2,825	3,538	2,185
November	1,104	4,337	1,454	1,079	1,875	2,393	2,789	1,695
December	921	3,120	1,226	862	1,615	2,008	2,237	1,360
1948 January			1,066	748	1,414	1,901	2,240	1,199
February	1,113	3,337	915	757	1,534	2,102	2,636	1,247
March	952	3,220	708	670	1,408	1,856	2,186	1,083
April	1,207	3,743	962	918	1,729	2,264	2,793	1,399

Source: *Bollettino* of the Economic Department of the Bank of Italy, no. 12, December, 1947, pp. 68-69.

MOVEMENT OF SECURITIES ON THE ITALIAN STOCK EXCHANGES (Values at clearing prices, in millions of lire)

TABLE V

Date	Gov't or Gov't Guaranteed Securities		Debentures		Shares		Total value
	In thousands	Value	In thousands	Value	In thousands	Value	
1946 January	4,304	558	69	38	1,703	662	1,558
February	4,373	513	54	20	2,165	695	1,237
March	2,364	524	63	32	2,125	587	1,143
April	2,314	526	65	33	1,677	551	1,110
May	2,339	492	62	32	2,504	1,036	1,560
June	1,846	467	55	28	2,914	1,626	2,121
July	1,900	458	60	31	5,818	3,903	4,392
August	1,622	366	35	18	4,337	4,284	4,668
September	2,485	543	55	28	5,101	3,597	4,168
October	2,437	711	67	34	3,808	2,828	3,593
November	3,582	783	85	41	4,238	4,167	4,991
December	3,859	726	67	34	6,556	2,382	8,142
Total	32,126	6,968	736	377	42,947	31,318	38,664
1947 January	2,779	467	102	56	5,695	6,270	6,793
February	1,816	372	66	34	4,055	5,728	6,134
March	3,982	522	70	35	6,081	9,182	9,839
April	4,961	817	57	30	6,152	11,890	12,537
May	5,433	691	64	29	3,958	8,229	8,949
June	5,320	636	69	34	3,553	4,984	5,655
July	5,131	598	81	39	4,302	4,783	5,420
August	3,494	380	32	15	2,980	3,073	3,468
September	4,360	472	33	16	4,556	4,114	4,602
October	6,388	762	55	25	5,805	4,671	5,458
November	5,908	674	40	19	6,742	4,133	4,826
December	7,687	797	41	19	5,597	3,358	4,174
Total	57,258	6,987	705	352	59,037	70,506	77,845

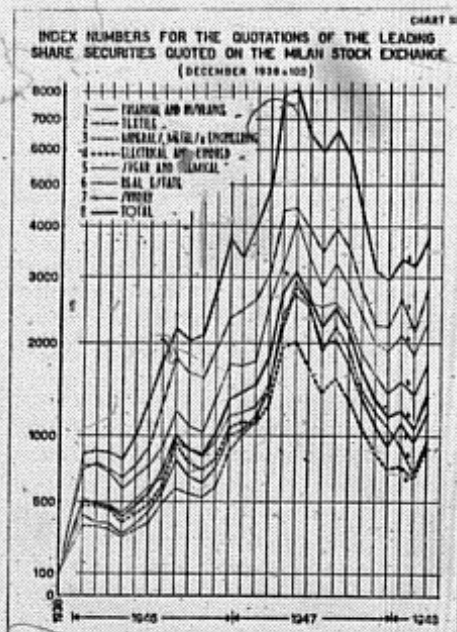
at extremely advantageous prices being anticipated, textile shares soon became the most popular investment. In this period textile share quotations showed the biggest increase (172 %), followed closely by financial and insurance shares (166 %), while shares in the mining and heavy industries (107 %), the chemical sector (115 %) and the real estate sector (108 %)—owing to rent control and the prohibitive cost of new buildings—appeared to be neglected.

The importance of this trend is also proved by the quantity of shares negotiated (see Table V) which, in the period May-August 1946, clearly showed the greater interest in equities to the detriment of State securities and bonds. In fact the volume of equities negotiated monthly in all the Italian stock exchanges, calculated on the basis of the prices of compensation, amounted to an average of about 2,710 million lire and formed 85 per cent of all trans-

actions, whereas during the preceding period of January-April 1946, it had amounted to barely 626 million lire, equal to 49 % of the total turnover.

During the four months now being considered, the upward trend of quotations and the volume of dealings were highest in the months of July and August, especially when some companies announced—in compliance with the faculty granted by Decree 436 of May 27, 1946—that they would shortly revalue their assets, which further stimulated speculation.

Towards the end of August 1946 the market began to show signs of weakening owing to the precariousness of certain positions, mainly subsidised by bank loans and developed over-hastily during this period of boom. The downward trend that ensued, for which there seemed at first to be a technical explanation, turned out instead to be the direct consequence of the



unexpected measure placing a special tax on capital increases for monetary revaluation and compelling business concerns to revise their expansion programmes, in preparation or already determined.

The Decree published towards the middle of September (No. 241 of September 13, 1946) laid down that revaluation balances transferred to capital were subject to a levy of 25 per cent payable to the State. This payment could be made in cash or could take the form of free shares registered in the name of I.R.I. (Institute for Industrial Reconstruction) for a corresponding nominal value. In the latter case, however, the shares could be redeemed at the end of one year on payment of the nominal value plus the annual interest of 5 per cent. It should, however, be pointed out that the tax only affected balances resulting from the application of the revaluation coefficients provided for in the Decree of May 27, 1946 (16), while

(16) Unlike Decree No. 163 of February 4, 1937, Decree No. 241 of September 13, 1946, provided for the inclusion of these balances in the reserve funds taken as basis for the calculation of the progressive tax on dividends, provided a sum equal to 15 per cent of these balances was handed over to the

those corresponding to revaluation as a consequence of the monetary adjustment of 1936 were explicitly exempt. The Decree applied to transfers taking place after August 30, 1946, while for those which had been decided but not yet effected by that date, the company was allowed to revoke the decision.

The intervention of the Government at a moment when quotations were in process of readjustment, which from certain aspects was very desirable, must be considered in the light of the situation of the public finances and of the recourse to the money market which the Treasury had anticipated within a short time with the issue of a loan (the so-called Reconstruction Loan of November-December, 1946). As the transaction was planned to supply a large flow of new money at a lower rate of interest than other State securities (3.5% instead of 5%), obviously the object of the new tax was to lessen the attraction of shares for available liquid funds.

In the two months that followed (September and October 1946) the share market was distinctly weak and the business turnover greatly reduced as a result of the prudent attitude assumed by professional operators and the abstention of the general public. A certain liveliness was to be noted, however, in the public funds sector and particularly in that of securities which could be converted into the new loan.

A new period of revival, with different characteristics from the July-August period, started early in November. The trend of quotations in the various sectors showed that this time more logical and sounder principles were followed by operators, who selected investments not only with regard to factors of a general nature, but also with regard to the financial situation of the various concerns and their productive possibilities. To this contributed also the influence of capital increases decided on by companies, which so far had been inspired by cautious principles in their administration and were still able to use their credit balances from the 1936 revaluation which were exempt from

State. If these balances were later transferred from the reserve funds to capital, then they were subject to a further tax of 10 per cent so as to reach the 25 per cent rate laid down.

the new 25% tax. In this atmosphere, even the sensation of heaviness caused by subscriptions to the Reconstruction Loan was lightened by the expectation that, once the Treasury transaction was concluded, available money would once more flow to the share market in large quantities.

So 1946 closed with effervescent markets and both the index number for quotations and that for the volume of transactions reached new maximum levels. At the end of December the general index number for shares was 1,353, while the business turnover during the month had reached a level of almost 7,400 million lire.

6. The year 1947 was characterised by two quite distinct and contrasting phases with larger fluctuations than the Italian stock exchanges had ever known before: a rapid and uninterrupted rise from January to May and a fall, sometimes swift and sometimes slow but practically uninterrupted, from May to December.

After a period of uncertainty, reflecting mainly factors connected with domestic policy and the lively and continuous discussion of problems such as the nationalisation of industries and the forced currency conversion, during the second half of February the stock exchanges showed a marked tendency to improve, and each month the differences in quotations grew more marked. The wide-spread pessimism regarding the State financial situation had brought the money factor back into the foreground, accentuating the intervention of speculation. Not even the publication of the Decree concerning the extraordinary capital levy had any effect on this tendency; on the contrary, on the basis of the mechanism of this tax (17) regarding shares, the reaction was an intensification of the process already under way.

Faced by this situation, the Government thought it advisable to check purchases made without considering the price or type of share.

(17) The text of this levy published at that time contemplated the valuation of shares on the basis of the average of compensation prices during the six months from October 1946 to March 1947, so that the excess value over and above this average value would be exempt from taxation. See: B. Gastorn, *Three Forms of Capital Levy in Italy*, in this Review, October 1947, p. 149.

by again applying the transfer surtax (Decree No. 154 of April 1, 1947) on exchanges at the rate of 4 per cent, half of which to be paid by the buyer. But even this measure, adopted in an atmosphere of irresponsibility, did not attain its end. On the contrary, after a short pause, quotations rose to still higher levels, pushed up by the ever-increasing number of occasional operators, who brought on to the market large amounts of new money in search of safety, and by speculation which availed itself also of bank loans. (18)

Thus, the ferment of quotations ended by facilitating the increases of capital, a problem which, together with the directives inspiring Government action, dominated the Italian market during the whole year.

It is unnecessary to stress the urgency and vastness of this problem which affected many sides of the economic life of Italian business (the replenishing of depleted stocks; repairs to plant and buildings damaged by the war or their replacement or conversion to more up-to-date and cheaper systems of work), at a moment when the Italian economy had good prospects of re-entering world markets. Among other things, there was the need to remedy the disequilibrium in industrial concerns between fixed and working capital, inasmuch as the latter had been reduced in value by the depreciation of the lira during its enforced conversion in a predominantly monetary form. It is obvious that, in these circumstances, business turned to the capital market to obtain funds, by issuing shares that were not a fixed burden repayable on a certain date as were the loans obtained from the banks. For this purpose, too, the flow of new money was stimulated, adding to the issue of shares on payment the free distribution of shares that resulted from the balances from monetary revaluation having been transferred to capital. Concerns were not lacking, however, which not being in such urgent need of funds, increased their capital exclusively by means of revaluation transactions, naturally kept within the limits that did

(18) Limiting our remarks to contangoes effected by banks, their volume rose from 19.9 billion lire at the end of September 1946 to 36.9 billion at the end of December 1946, 49.9 billion at the end of March 1947 and 52.7 billion at the end of June 1947.

not fall under the 25 per cent tax. It was, indeed, in the March-April period that companies attained the highest capital increases, both through the issue of shares on payment and through the distribution of free shares (see Table VI).

TABLE VI  
CAPITAL INCREASES OF JOINT-STOCK COMPANIES  
(million of lire)

Date	Free Shares	Cash payments	Amalgamations, Replacements and other	Total
1946 January	150	562	36	748
February	—	184	20	204
March	—	415	42	457
April	32	562	8	622
May	—	304	47	351
June	9	409	63	481
July	902	1,291	28	2,221
August	11	483	39	533
September	11	710	43	764
October	43	979	310	1,332
November	66	3,750	78	3,894
December	59	1,205	106	1,434
Total	1,304	10,858	881	17,043
1947 January	73	1,942	113	2,128
February	1,092	2,020	491	3,603
March	6,991	9,861	855	17,737
April	2,834	6,997	1,382	11,213
May	2,742	2,955	589	6,286
June	2,840	4,748	75	7,663
July	457	775	201	1,433
August	7,614	13,741	839	22,194
September	1,492	5,041	265	6,798
October	3,340	8,840	1,014	12,834
November	1,401	5,020	738	7,159
December	206	3,597	18	3,821
Total	31,083	67,157	6,611	104,850

But the fermentation of stock exchange quotations, satisfactory though it was from the standpoint of company financing, spread the boom psychology also to other sectors, such as wholesale and retail prices and foreign currencies (see Table III).

Towards the end of April, the fear of further measures (increase of the transfer surtax and suspension of transactions "for the account") intensified the rush of purchases, even in sectors so far neglected. Fed by an ever increasing flow of money and having lost

all attempt at selectivity, the market recorded the year's maximum prices early in May.

At the end of May the general index number was 3116, showing a 130 per cent increase since the beginning of the year. The highest points were reached by textiles (8101) and real estate (4174). The heavy industries and chemical sectors—which were previously the least active—recorded 2849 and 2951 respectively, index numbers which, though they were still lower than the general index number, had increased proportionately more during the period in consideration (224% and 148%).

The total volume of share transactions on Italian stock exchanges had reached its highest level in April with 11.9 billion lire, to which both the actual volume of exchanges and high quotation contributed (19). In May, the total transactions only amounted to 8.2 billion lire, sudden and large offers having occurred on the stock exchange after May 10th. Though they were easily absorbed at first, things soon became more difficult as operators grew more prudent in view of the technical conditions of the market. With the solution of the Government crisis, the slight sluggishness of quotations took the form of a definite downward trend. The formation of the new Government and the financial directives contained in its programme consolidated the development of the new phase (20).

With the exception of a slight recovery in July and August, for the rest of the year and even longer the stock exchange recorded a progressive fall in share quotations; from 3116 at the end of May, the general index number dropped to 2681 in June, 2185 in September, 1199 in December and 1088 in February 1948.

The trend of the index number shows clearly the great contrast between the first four months of 1947 and the ensuing period and the

(19) In order to measure the weight of the two variables (quantity and price) readers are referred to the accurate study by Prof. Batti on the monthly turnover of Italian stock exchanges (published in the "Rassegna dell'Associazione Bancaria Italiana") which he calculates by means of two series of index numbers termed "index of quantity" and "index of price".

(20) A comment on this phase is offered by L. FROSINI, "Six Months of Italian Economic Policy," in this Review, January 1948, p. 248.

sudden transition from one to the other. There was a sudden contraction in that unusual liquidity of the financial market in part resulting from the participation of new investors not previously in touch with the stock exchange. This contraction may be attributed to the change in the economic atmosphere resulting from the large drain on monetary availabilities effected by business concerns, both through the issue of new shares and through recourse to bank loans. Business concerns had drawn largely on these sources in order to carry out their programmes which found an incentive in the constant increase in prices which, in its turn, made it possible to meet the growing costs of production.

But as the financial requirements of these programmes far exceeded the quantity of the newly-formed savings, as soon as the banks—which were rapidly reaching the limits laid down by tradition and prudence concerning the ratio between deposits and investments—first on their own initiative and later in compliance with Government measures, started to be more cautious in granting loans, businesses began to find themselves in difficulties. In these circumstances, they attempted to meet their requirements either by selling part of their stocks, by disinvestment of shares they held or by slowing down the rate of production; this latter measure, however, was not accompanied by an adequate reduction in general costs, some of them being especially rigid (ban on dismissals and system of calculating wages). Other circumstances, such as the greater availability of imported products, helped to determine a reversal of the boom and a downward trend of prices which, in other ways, created new difficulties.

All this induced the business concerns most in need to have recourse to the financial market, not so much to reconstitute the elements of their fixed capital, as to supply themselves with the necessary funds for running expenses. The effect of this was that the mere announcement of new issues was followed by a still bigger fall in the share values of the concerns making the announcement—a fall, which, for obvious psychological reasons, influenced all quotations.

7. - In reply to the requests made by financial circles, wishing to check the downward tendency of the stock exchanges and tone them up, for a complete repeal of the war-time legislation still in force (repeal of the transfer surtax and compulsory registration of shares, of the ban on investment of foreign capital, and of the progressive tax on dividends), the Government reduced the transfer surtax from four to one per cent and began to study provisions for the revaluation of capital for monetary adjustment and the investment of foreign capital in Italy.

It was only in February 1948 (Decree No. 49 of February 14, 1948) that new regulations were published concerning this revaluation. After repealing the extraordinary 25 per cent tax contained in the Decree of September 1946, the new Decree provides that, as from 1947, the amortization quotas, which may be deducted for the purposes of assessing the income tax, is to be estimated by applying the coefficients established in May 1946 multiplied by 3.60. The coefficient for capital invested in 1945 has also been set at 3.60. Maximum limits have therefore been fixed, within which revaluation may take place, but this does not mean that the limits must always be reached, since it is necessary to consider the type of assets forming the capital, their productive capacity and the prospect of their effective economic utilisation in the business. The Directors and the Auditors must submit reports on these matters to the shareholders' meeting which then determines the extent of the increase and the principles and coefficients adopted for the various sources of income.

Another aspect, no less interesting, of the present lack of liquid assets in business, is in the financial sphere proper. The Decree lays it down that the credit balances resulting from the application of the 3.60 coefficient may be used to increase capital. But this provision is restricted by detailed regulations concerning the extent and the method by which these balances may be used. To begin with, the revaluation fund may only be used up to a maximum of two-thirds for this purpose; should this figure exceed the total amount of paid-up capital and reserves, then the amount

which may be added to capital is limited to a sum equal to the paid-up capital and reserves.

Further, if revaluation funds are to be transferred to capital, the company must at the same time approve an issue of new shares on payment of or of bonds convertible into shares for the same amount. Since this condition is likely to stimulate the flow of new capital in addition to the increase "on paper" resulting from the revaluation, the Decree states that, if the whole issue of shares or bonds is not taken up, the sum to be transferred to capital must be reduced to the lesser amount for which shares and bonds have actually been underwritten. (21)

Obviously these conditions refer to credit balances arising from the application of the new 3.60 coefficient, whereas balances resulting from the application of the coefficients provided in the Decree of May 1946 (including the credit balances arising from the monetary alignment in 1936) may be freely used.

Another important condition, contained in the Decree under consideration, concerns the manner in which, until further provision is made, the credit balance deriving from revaluation is to be divided among the shareholders. First, there is to be an increase in the nominal value of the shares already in circulation and not an issue of new shares; secondly, the shares whose nominal value has been increased may not be divided for a period of one year from

(21) Some articles published by the newspaper "Il Sole" on February 19 and 26, 1948, pointed out that the underwriting of shares is a contract between the shareholder and the company, in virtue of which the shareholder undertakes to pay over a certain sum to the company, but that the laws at present in force only lay down that at least three-tenths of the total amount must be paid at the moment of underwriting and that the payment of the remainder may be postponed. The conclusion may therefore be drawn that the transfer of credit balances to capital calls for the payment of only three-tenths of the amount of the balances used for this purpose. This is not so when bonds are issued, as the Civil Code states explicitly in this case that the whole sum must be paid at the moment of underwriting.

Further, the provision contained in article 2445 of the Civil Code, authorising the reduction of capital by releasing shareholders from the duty of making contributions they still owe, affords another loophole which might result in undermining the efficiency of the provision in question, since the company might well limit the cash payment to be made by the new underwriters to three-tenths of the par value of the share and then later decide on a reduction of capital.

the date of the decision to transfer credit balances to capital.

With regard to the Decree of September 1946, the extraordinary 25 per cent tax (22) is replaced in the new measure by a 4 per cent stamp duty to be paid within six months from the effective date of the decree approving the resolution to increase capital. Needless to say, no tax is due on the mere revaluation of sources of income and their entry on the debit side of the balance-sheet as a counterpart to the credits.

In order to sum up the present possibilities for an increase of capital through revaluation for monetary adjustment, we have set out in Table VII the various coefficients contained in the different measures adopted on this subject.

Four types of revaluation are possible, as a result of:

- 1) the monetary stabilisation of December 21, 1927;
  - 2) the monetary alignment of October 5, 1936.
  - 3) Decree No. 436 of April 27, 1946;
  - 4) Decree No. 49 of February 14, 1948.
- They are effected respectively by applying:

a) the coefficient of 3.6661 to values entered on the balance-sheet up to December 21, 1927 (see column 2 of Table VII) to express them in stabilised 1927 lire;

b) the coefficient of 1.6932 to values revalued as above and to those entered ex novo between December 21, 1927 and October 5, 1936 (see column 3 of Table VII) to convert them into "aligned" 1936 lire;

c) the coefficient of 5 and the other coefficients shown in column 4 to capital revalued as in (b) and entered on the balance sheet in 1937-1938 or between 1939 and 1944 respectively;

d) the coefficient of 3.60 to values revalued as in (c) or entered on the balance-sheet in 1945.

(22) For companies which had already paid the 25 per cent tax when increasing their capital from credit balances, the amount paid on this account will be considered as an advance payment of the extraordinary proportional tax imposed by Decree No. 1131 of October 11, 1947.

COEFFICIENTS OF REVALUATION FOR MONETARY ADJUSTMENT NOW IN FORCE TABLE VII

Years in which the items were entered on the balance-sheet	In virtue of Ministerial Circular of 18-11-46, No. 3320 (a) regarding stabilisation of 21-12-1927	In virtue of Decree 436 of 27-5-1946		In virtue of Decree No. 49 of 14-2-1948	Maximum coefficients that may be applied under laws now in force	Coefficients that may be applied without observing conditions in Decree 14-2-1948
		Regarding monetary alignment of 5-10-1936	Regarding further depreciation of lira			
1	2	3	4	5	6 = 2 x 3 x 4 x 5	7 = 2 x 3 x 4
1913	3.6661	1.6932	5	3.60	111.733	31.037
1914						
1915						
1916						
1917						
1918						
1919						
1920						
1921						
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1942						
1943						
1944						
1945						

(a) According to the provisions of the Ministerial Circular, the values still appearing on the balance-sheet, which were entered prior to 1927, are revalued by applying to the costs calculated in gold lire, first the coefficient of stabilisation 3.6661 and then the coefficient of adjustment 1.6932 (see foot-note, p. 327).

In actual fact, the operation of revaluation, according to the regulations at present in force, calls for the application of a series of different coefficients according to the period in which the various sources of income first became part of the company's capital. For instance, to revalue an item entered on the balance-sheet between 1913 and December 21, 1927, and still expressed in lire of that time, one must first multiply its value by 3.6661, then by 1.6932, then by 5 and lastly by 3.60, namely by a total coefficient of 111.733. The latter results from column 6 of Table VII, in which the maximum total coefficients at present applicable are given for each year.

Let us take the case of a company having

an item of 1 lira on the credit side of its balance-sheet in 1915 and study its increases after each revaluation, as well as the ensuing credit balances:

TABLE VIII

Revaluation provisions	Amount of capital prior to revaluation	Coefficient of revaluation	Revalued capital	Revaluation balance
1	2	3	4 = 2 x 3	5 = 4 - 2
Decree 21-XII-1927	1	3.6661	3.6661	2.6661
" 5-X-1936	3.6661	1.6932	6.2074	2.5413
" 27-V-1946	6.2074	5.—	31.037	24.8296
" 14-II-1948	31.037	3.60	111.733	80.6962
				110.7332



Consequently, should the company decide to revalue this item to the maximum extent permitted, the amount to be entered on the balance-sheet will be Lire 111,733, while the total credit balance deriving therefrom will be 110,733. But, as has been seen the various credit balances are not all subject to the same treatment. In fact, the balances of 2,6661, 2,5413 and 24,8296 may be entirely transferred to capital, provided the legal reserve is proportionately increased so as to maintain the same ratio between reserve and capital as prior to the revaluation. The balance of 80,6962, however, may only be used for an increase of capital up to a maximum of two-thirds and, in any case, to a sum not exceeding the amount of paid-up capital and reserves resulting from the balance-sheet after revaluation. In addition to the proportionate increase of the reserves, this latter transfer is also subject to the approval at the same time of a further increase in capital obtained by issuing against payment shares or bonds convertible into shares for an amount equal to that of the credit balances used. (Companies not wishing to fulfil these conditions, will have to limit themselves to revaluing on the basis of the coefficients in column 7 of Table VII).

Lastly, all capital increases resulting from the utilisation of any of the above-mentioned credit balances must be made, as from February 21, 1948 (date of the coming into effect of Decree of February 14, 1948) and until further provision is made, by increasing the nominal value of the shares already in circulation and not by distributing new shares.

8. - As mentioned at the beginning of this article, the principles of prudence which inspired the law-makers have been extensively discussed in public. Criticism concentrated mainly on the provisions intended to solve the fiscal and particularly the financial aspect of the problem. According to the critics, the latter remains unsolved, firstly because the coefficients of revaluation are not proportionate to the actual depreciation of the lira and, secondly, because the regulations conditioning the transfer of revaluation balances to capital do not create an incentive sufficiently strong to cause a flow of liquid assets to the companies.

With regard to the first point, it should be noted that both in the Decree of May 1946 and in that of February 1948, the coefficient of revaluation was calculated in relation to the depreciation of the lira in term of the official lira-dollar rate of exchange in force at the time when they were published (100 and 350 lire to 1 dollar respectively). Quite apart from the fact that since the new legislation on exchange rates, dating back to November 1947, first came into effect the dollar exchange has fluctuated around 575 lire—a quotation which comes nearer to reflecting the extent of the devaluation of the lira in terms of foreign currency—it should be remembered that even the dollar, though it has proved to be one of the steadiest currencies during the last ten years, has suffered a depreciation of about 50 per cent between 1938 and 1947. As the revaluation aimed at eliminating the drawback of insufficient amortisation quotas resulting in illusory profits, the critics maintained that it would have been better to refer the coefficients to domestic prices, that is to say, to the prices which will have to be paid for commodities when re-stocking become necessary. Consequently, the coefficient applicable to sources of income entered on the balance-sheet before the war (1937 and 1938), which is now 18 ( $5 \times 3.60$ ), should have been fixed at 50, or at least at 30, if the actual depreciation of the lira, as shown in the lira-dollar exchange rate now operating in foreign trade, is taken into account.

With regard to the financial aspect and the strict conditions laid down for the transfer of revaluation balances to capital, the critics asked the following questions:

- Why limit to a part only of these balances the advantage of appearing on the balance-sheet as real assets?
- Why should an increase of capital (through the issue of securities or of shares on payment) be required even for companies that have no need for it, especially when the stock-market conditions are such that a new issue is bound to cause a weakening of quotations?
- Lastly why not allow the distribution of new shares without payment and the division of old shares which have been revalued, since

this would encourage people with small savings to invest them in these businesses?

An answer to these questions can perhaps be seen in the Treasury's constant endeavour to avoid an increase in the pressure of private demand on the Italian financial market, which would compel it to burden the Bank of Issue with the whole weight of its requirements.

Following the publication of the Decree on revaluation, which also provides for the repeal of the extraordinary tax on dividends, there was a still further weakening of quotations and at the end of February 1948 the lowest level since December 1946 was reached. In fairness, however, it must be admitted that the political situation preceding the elections (April 18) also contributed to this situation. In any case, this decree was published too recently for any definite opinion to be expressed concerning its possible consequences.

9. - *The same may be said with regard to the new regulations, so long awaited, concerning the investment of foreign capital in Italian business.*

*After repealing the Decree of July 24, 1942, under which the investment of foreign capital in Italian business had to be authorised by the Government, the new Decree (No. 211 of March 2, 1948) states that foreigners who prove that they have invested capital in Italy after the entry into effect of this decree, ceding currency freely utilisable for payments abroad*

*to the Italian Exchange Office, may transfer abroad the income, interest and profits thereof, within the limits of a maximum of 1% more than the annual legal rate of interest (at present 5%). Also the capital deriving from a later disinvestment may be transferred abroad, limited to the amount of the foreign currency originally imported and always provided the transfer is requested not less than two years after the date of investment and for an amount not exceeding 50 per cent for every two year period (23). As a matter of fact, these regulations are very much the same as those published in December 1937 (Decree No. 2375 of December 6, 1937) which remained in force up to December 31, 1940. (24)*

This decree, while safeguarding our currency position, is a further step towards that international financial cooperation which is gradually moving from the public to the private plane, and which will benefit not only Italy's important labour resources but also such foreign capitalists as have confidence in Italy's economic recovery.

(23) Decree No. 211 of March 2, 1948, also makes it possible to import foreign capital in the form of machinery to a value equivalent to half the total amount to be invested. In this case, however, the investment is subject to Government authorisation and the transfer abroad of the corresponding capital may not be requested prior to five years from the date of investment.

(24) The above provision was completed by Decree No. 1556 of August 7, 1936, on the issue of special Treasury Bonds in foreign currency, and Law No. 764 of May 15, 1939, granting a premium on sums in foreign currency transferred to Italy by Italian citizens residing abroad.