

# Balance-Sheet of the First Year of the ERP in Italy

by

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We feel that two considerations of a general nature should precede any attempt to draw up a balance-sheet of the first year's results of the European Recovery Program.

First, it must be acknowledged that ERP played a fundamental part in assisting Italian economy; without it, supplies of foodstuffs and raw materials would have fallen so low as to imperil the recovery of production and market supplies, and consequently to compromise also the struggle against inflation and unemployment (1).

Secondly, we cannot sufficiently stress the fact that, despite its undeniable importance, the exceptional assistance now being granted is not sufficient to offset the lack of balance in the structure of Italian economy caused by surplus population. This surplus population, which takes the form of a large mass of unemployed that cannot be reabsorbed by the productive cycle, seriously hampers all efforts aiming at recovery. Unfortunately this is often forgotten by even the most sympathetic foreign observers, who are inclined to be over hasty in the opinions they express regarding Italy's economic situation, the structure and features of which are quite different from those of the other countries of Western Europe participating in ERP.

## 1 - The achievements of the European Recovery Program in the main participating Countries and Italy's position.

The results of the first ERP year in Italy must be considered jointly with the general

(1) To give some examples: without ERP, wheat imports in 1948 would have been 30% lower than in 1947; for fuel-oil and coal — which are not produced in Italy — imports would have been 35% lower; whereas imports of some fundamental raw materials, such as copper, would have been 50% lower.

results obtained in the participating countries. Table I gives figures for the main participating countries regarding ECA allocations, procurement authorizations (P. A.) issued and shipments made and paid for by ECA up to March 31, 1949.

TABLE I  
SITUATION AS OF MARCH 31, 1949  
(figures in millions of \$)

	Allocations	P. A.'s issued	Shipments made and paid for
Total	4,953 (a)	4,770	3,047
to:			
United Kingdom	1,316	1,259.8	1,008.4
France	1,061.6	1,072.8	709
Italy	585.9	578.6	319.7
Netherlands	173.9	468.3	230
Germany (Bizone)	12.6	373.8	211.3
Austria	138.7	230.1	165.9
Belgium-Luxemburg	206.7	199.6	109.6

(a) Figures taken from ECA's "Tenth Report for the Public Advisory Board" published in Washington, D.C., on April 30, 1949. See page 8 of the Report, where it will be seen that out of a total of 5,013.5 million dollars (of which one billion for loans) appropriated by the U.S. Congress to ECA up till March 31, 1949, 4,953 million dollars were allocated to Participating Countries, 3,478 millions of which were for direct grants, 503 millions for conditional help and 972 millions for loans.

The figures contained in Table I enable us to make in Table II percentage comparisons between allocations and P.A.'s issued, between P.A.'s issued and shipments, and between allocations and shipments paid by ECA headquarters through March 31, 1949.

The comparisons appearing in columns *b* and *c* show that in the principal countries (Great Britain and France) the rate of absorption of the ERP was swifter than in Italy. The delayed development of the Program in Italy was caused partly by organisational difficulties during the first quarter year of its implementation and partly by the uncertain trend of the

Italian market during the first three quarters of 1948 (deflationary readjustment), which curbed imports by private firms and collective monopolist purchasing organisations, particularly for coal.

TABLE II

## PERCENTAGE COMPARISON OF ERP SERVICES

	Ratio between allocations and P. A.'s issued a	Ratio between P.A.'s issued and shipments paid b	Ratio between allocations and shipments paid c
Total	96.30	63.88	61.52
United Kingdom	95.73	80.04	76.63
France	101.05	66.08	66.78
Italy	98.75	55.85	54.56
Netherlands	98.82	49.11	48.53
Germany (Bizone)	90.60	56.52	51.21
Austria	100.61	72.10	72.54
Belgium-Luxemburg	95.56	54.90	53.02

According to the latest figures known, however, the curve of goods arriving through ERP appears to be following an upward trend. This allows us to hope that the delay complained of will be gradually made up (2).

For the first year of ERP (3) United States help to Italy consisted of the allocation of a sum of 585.9 million dollars, mainly composed of grants, that is to say help granted free of charge. A smaller part — about ten per cent of the total — consisted of loans. This figure also includes the sum allocated to Italy as *conditional help* in compliance with the Inter-European Payments and Trade Agreement signed in Paris on October 16, 1948 (4).

The importance of ERP help to Italy is clearly shown by these two percentage ratios. It accounts for almost 43% of Italy's total imports and represents no less than 88% of supplies from the dollar area. This proves that the aggregate help tends to cover the deficit in our balance of payments, thus allowing for a

(2) On April 30, 1949, the P.A.'s granted amounted in fact to 611.3 million dollars, while the value of the goods that had arrived in Italy was approximately 390-400 million dollars.

(3) The figure of 585.9 million dollars is supplied by the previously mentioned « Report » and replaces the original figure of 601 million dollars which is generally given.

(4) According to the terminology adopted, « conditional help » means that part of ERP help which is allocated as compensation for Italy's credit balances in bilateral trade with other participating countries.

slow but progressive improvement in the standard of living of the Italian people and in the level of both agricultural and industrial production.

In other words, we may now say, at the end of one year, that ERP help shows the following characteristics:

(1) it supplies Italy with foreign currency, enabling her to settle her accounts with foreign countries, which usually show a deficit owing to the country's lack of hard currencies and, particularly, of dollars;

(2) economically, it makes it easier to get hold of goods in short supply or goods that were difficult to obtain until a few months ago — cereals and copper, for instance — guaranteeing supplies of these goods without Italy having to supply anything in return;

(3) financially, it makes it possible simply to integrate national savings, which also are far below the country's requirements. In fact, both the utilization of the Lira Counterpart Fund, which is formed by the sale on the home market of goods supplied free of charge, and the dollar loans to be used for renewing productive equipment, appreciably increase supplies of capital on the national market.

## 2. - Progressive implementation of the program.

The P.A.'s issued by ECA in favour of Italy until March 31, 1949 amounted to 578.6 million dollars, equivalent to 98.7% of the allocations. They accounted for about 12 per cent of the total amount of P.A.'s issued by ECA at that date, which is very much the same percentage as that of help to Italy for 1948-49 compared with the aggregate help to all participating European countries.

As a result of the principle of obtaining essential supplies of raw materials and foodstuffs through ECA on which the Italian program is based, applications are mainly for bulk goods: cereals, coal, petroleum products and cotton account for over 65% of the P.A.'s granted (Table III).

During the first quarter of 1949 the weight of cereals increased in the P.A.'s issued, while there was a drop in P.A.'s for coal, following

TABLE III  
GOODS FOR WHICH P.A.'s WERE ISSUED  
(position as of March 31, 1949)

Goods	millions of \$	% of total
Cereals	158.1	27.5
Freights	80.2	14.0
Machinery	79.3	13.8
Cotton	62.6	10.9
Coal	59.3	10.3
Petroleum products	41.8	7.2
Iron, steel and their products	24.1	4.2
Copper	13.9	2.4
Oil, fats and oleag. seeds	11.0	2.0
Miscellaneous	53.9	9.4
	574.4 (a)	100.0

(a) The figure of 574.4 supplied by the « Relazione sul 1° trimestre ERP in Italia », page 87, Rome, April 1949, is slightly lower than that of 578.6 supplied by ECA's « Tenth Report », p. 14.

on increased supplies from European sources, and for mineral oils.

Owing to the unavoidable lapse of time between the granting of P.A.'s by ECA and the arrival of goods in Italy, the total value of the goods that had reached Italy by March 31 is reckoned to be 335.8 million dollars, equal to 72% of the P.A.'s issued for the first twelve months (Table IV).

The weight of goods that had reached Italy by March 31 was 7,205,405 tons. A few main

TABLE IV  
VALUE OF COMMODITIES REACHING ITALY  
UP TO MARCH 31, 1949

Commodities	C.I. value (millions of \$)	% of total
Cereals	140.0	41.7
Coal	66.9 (a)	22.9
Cotton	50.9	15.2
Petroleum products	40.3	12.0
Copper	6.0	1.8
Iron and steel products	7.4	2.0
Miscellaneous foodstuffs	3.2	0.9
Medicines	2.7	0.8
Leather and hides	2.5	0.7
Oil seeds	2.5	0.7
Miscellaneous products	17.4	5.3
Total	335.8	100.0

(a) This figure includes the coal coming from the Ruhr, which is I.o.b., amounting to 16.4 million dollars.

and equipment had arrived up to March 31: only 1.1 millions worth.

If Italy's total imports during the 12 months under consideration are compared with the ERP goods delivered, it will be seen that the latter account for 40.5 per cent in volume and 22.4 per cent in value of the total; for cereals the percentage is approximately 60 per cent of the volume, for coal 50.30 per cent and for crude oil 66.8 per cent.

These percentages, like the figures given

ARRIVAL OF MAIN ERP COMMODITIES DURING THE FIRST ERP YEAR  
(April 1948 to March 31, 1949 - in m. tons)

TABLE V

Quarter	Cereals	Coal	Petroleum products	Cotton	Iron & steel products	Copper
April-June '48	36,274	463,790	207,984	191	—	—
July-Sept. '48	178,798	1,672,892	553,978	2,527	6,956	2,488
Oct.-Dec. '48	376,190	1,050,273	536,307	32,446	3,050	4,540
Jan.-March '49	626,201	1,013,239	295,423	42,244	36,046	4,646
	1,217,463	4,200,194	1,598,892	77,408	46,046	11,674

items account for 96% of this weight; this too proves that bulk goods prevailed and it is for this reason that a large quota (14% of the total) of the ECA allocations are absorbed by freights (5). (Table V) Very little machinery

(5) Altogether, at the end of March, 719 fully laden ships and 392 partially laden ones had arrived, while a further 37 were on their way carrying a total of 338,885 m. tons. By May 15, 8.5 million m. tons of goods to a value of 420 million dollars had arrived in Italy.

above, prove the truth of the assertion that during its first year in Italy, ERP has played more the role of a welfare organisation (helping to meet the current requirements of Italy's economic life) than the reconstructive role for which it had originally been cast. This presumably depended partly on the fact that it was more necessary for Italy than for the other countries to reestablish as best she could, through ERP, the equilibrium of her balance of payments,

which latter should, however, be accompanied by a level of productivity capable of ensuring economic and social stability.

Consequently since ERP help is only transitory, it is of outstanding importance to see that a sufficiently flexible assistance program is drawn up, avoiding any excess of unsuitable products as well as any lack of products required in order to reach the above-mentioned target.

The ECA loans for the renewal of equipment (67 million dollars) should be used to this end. These loans actually entered the final phase of allotment during the first quarter of 1949. The truth is that the Italian market proved unable to absorb the quotas of machinery and equipment allocated in compliance with the grants. This was due to the lack of capital that is characteristic of the Italian money market, which takes the form of extremely high rates of interest, thus dissuading producers from having recourse to loans other than the ECA loans for which the rate of interest is more advantageous (5.25%). For this reason the Italian Government is taking steps to grant special loans on the same conditions as the ECA loans, until the whole machinery program for the first year, estimated to amount to 120 million dollars, is covered.

To complete this survey, it should be added that the system of inter-European payments, fixed by the Paris agreement of October 1948, proved particularly prejudicial to Italy in view of the phenomenon — which grew more marked in 1948 — of her large credit balances with other participating countries. At the end of March 25 million dollars out of the 47.3 million dollars for which «drawing rights» had been granted, had already been ceded. On the

other hand, there has as yet been no opportunity to use the «drawing rights» received to the amount of 22 million dollars. In actual fact this reduces the help received from ERP for 1948-49 and delays the formation of the Lira Counterpart Fund.

### 3 - Formation and utilization of the Lira Counterpart Fund.

Article 4 of the Economic Cooperation Agreement signed in Rome on June 28, 1948 lays down that the Italian Government must open a special account with the Bank of Italy, equivalent to the cost indicated in dollars by the United States Government for goods, services and technical information granted to Italy free of charge and in any of the forms authorized by the 1948 law for Economic Cooperation.

Payments into the Lira Fund Account are based on the so-called *notifications*, which are actually notes of payment. Supplies coming under the heading of loans and those covering conditional aid mentioned in the Paris agreement are not counted, however, and consequently the sum to be paid into the Lira Fund is reduced to this extent. The progressive growth of notifications may be judged from Table VI.

Owing to the unavoidable lapse of time between the arrival of the notifications and the relative payments, the total sums actually cashed in by the Treasury, as proceeds from the sale of products received through ERP, is always slightly lower. Table VII shows, however, that there is a progressive and constant improvement in this respect.

The total of 125.7 billion lire of payments paid into current accounts with the Treasury

PROGRESSIVE GROWTH OF NOTIFICATIONS

TABLE VI

Position on	Number of notifications	Amount			
		In said period		Progressive	
		Millions of \$		Millions of lire	
30/9/1948	from 1 to 9	56.9	56.9	32,719	32,719
31/12/1948	from 10 to 16	52.0	108.9	29,886	62,605
31/3/1949 (a)	from 17 to 26	130.1	239.0	74,830	137,435

(a) In the period from April 1 to May 15, 1949, three more notifications for a total of 43.3 million dollars equal to 24.04 million lire were received. Consequently, on May 15, 1949, the total notifications received amounted to 282.3 million dollars (namely 162,339 million lire).

TABLE VII  
ACTUAL FORMATION OF LIRA COUNTERPART FUND

Situation on	Payments made		% of progressive payments to notifications received
	in period	progressive	
	millions of lire		
30/6/1948	—	—	—
30/9/1948	8,120	8,120	24.5
31/12/1948	43,894	52,014	83.0
31/3/1949 (a)	73,722	125,736	91.4

(a) During the period from April 1 to May 15, 1949 payments were made for a total of 25,400 million lire. Consequently payments as a whole amounted to 151,136 million lire on May 15, equal to 93.1% of the value of the notifications received.

by March 31, 1949 was accounted for by the following large groups of commodities (Table VIII):

TABLE VIII  
PAYMENTS ON 31-3-1949 ACCORDING TO GROUPS OF COMMODITIES

Commodities	Value (millions of lire)	% of total
Cereals	57,328.1	45.59
Miscellaneous foodstuffs	1,061.7	0.85
Coal	23,747.5	18.88
Petroleum products	15,052.7	11.97
Textiles	23,682.5	18.84
Industrial & miscellaneous products	4,563.5	3.63
Medicines	3,000.5	2.4
Total	125,736.0	100.0

This same sum of 125.7 billion lire was distributed as follows among the various accounts (Table IX):

TABLE IX  
DISTRIBUTION OF THE PAYMENTS MADE

Allotted to:	Value		% of total
	millions of \$	billions of lire	
1) Italian Govt. Treasury ERP-USA account with Bank of Italy	158.3	91.0	72.4
2) Italian Exchange Control Office in payment of drawing rights (from Oct. 1948 to Jan. 1949)	16.0	9.2	7.3
3) Loan account to balance notified quotas	44.4	25.5	20.3
Total	218.7	125.7	100.0

The Economic Cooperation Agreement contemplates the utilization of this Lira Fund for various purposes. Such utilization must be agreed upon with the United States Government which will take into account the need for promoting or maintaining internal monetary and financial stabilization in Italy, and for stimulating productive activity and international trade and the exploration for and development of new sources of wealth within Italy. Thus the utilization programs (Table X) drawn up some time ago by the Italian Government remain subject to United States approval.

TABLE X  
PROGRAM FOR UTILIZATION OF LIRA COUNTERPART FUND

(billions of lire)	
Contributions	Loans
Agriculture . . . . . 70	Merchant Marine . . . . . 5
Merchant Marine . . . . . 10	Iron and Steel . . . . . 93
Building . . . . . 15	Tourism . . . . . 8
Labour } Unemployment . . . . . 20	
Public Works . . . . . 20	
Transportation } . . . . . 20	
	224
	26

The relative draft laws drawn up by the competent Administrations were passed by the Council of Ministers on Sept. 11, 1948. Taken as a whole the programs should provide for the direct employment of 250-300 thousand workers per year on an average and for the indirect employment of over 100,000 workers in the ancillary industries. In the distribution of the first quota of the Lira Fund, anticipated to amount to a total of 250 billion lire, 224 billions are to be distributed in the form of contributions not to be repaid to the State, while 26 billions take the form of loans to be repaid (apart from the 69 billions earmarked exceptionally to integrate the balance-sheet of the Ministry of Transport in connection with railway works already completed); 73% of the total amount is to be allocated to public works in Southern Italy and the Islands. Recognising the problem of the Southern regions as one of Italy's main problems, a preferential principle has been followed favouring the South, which, as is well-known, suffers from a chronic lack of capital. This should

help considerably in gradually bringing up the depressed areas of Southern Italy to the same level as the rest of the country (6).

To give one example, we may mention that out of the 70 billion lire earmarked for agriculture, 50 billions will be used for land reclamation works and land improvement in Southern Italy. Further the whole of the allocations for transportation and public works (each amounting to 20 billion lire) are to be spent in the South. The 20 billion lire earmarked for public works are in fact the first allocation for which the ECA Mission has granted its approval (7).

#### 4 - Conclusion.

As will be seen from the foregoing survey, utilization of the allocations to Italy has been planned as follows: 69.7% for imports of foodstuffs, solid and liquid fuel, raw materials and semi-finished products; 14.5% for imports of machinery and industrial equipment; the remainder for the payment of freights and the purchase of miscellaneous commodities.

According to statements made by the competent Italian authorities and the ECA Mission, future import programs will tend to give increasing importance to producer goods for mass production use. The publication of the ERP «Purchase Program» for the second quarter of 1949, is in fact characterised by the

(6) See A. MOLINARI: *Southern Italy*, in this Review, No. 8, 1949, p. 25 et seq.

(7) The following programs have been sanctioned by Parliament and converted into a Bill:

1) Public Works	for 20 billion lire
2) Merchant Marine	» 8 »
3) Labour - Building	» 15 »
4) Labour - Unemployment	» 15 »
5) Agriculture	» 70 »
<i>total</i>	» 128 »

Parliament is still examining:

1) Transportation	for 70 billion lire
2) Tourism	» 8 »
<i>total</i>	» 78 »

Measures are being studied for the utilization of:

12-13 billion lire to be loaned to the iron and steel industry;

7 billion lire to the Merchant Marine (5 billions in the form of loans plus 2 billions to complete the 10 billions allocated in the form of a contribution). No definite measures seem to have been taken as yet concerning the utilization of the 20 billion lire earmarked for transportation.

greater importance given to the fixed capital sector to the detriment of the sector of circulating capital. This program includes far larger quotas than in the past for miscellaneous industrial equipment.

This is in keeping with the spirit of ERP, which originally aimed at reinforcing the productive process in Participating Countries. However it was precisely in this sector that obstacles occurred during the first year of the Program's realization in Italy, as a result of the deficiency of capital on the domestic market, which made it difficult for Italy to import, absorb and advantageously use the commodities supplied free of charge. These obstacles could be overcome by extending the system of loans also to supplies received as grants; this is the object of the previously mentioned draft law now being examined by Parliament.

The shift in the trend of ERP import programs is accompanied by new difficulties. As is well-known, Italy does not produce the main raw materials or produces them in quantities insufficient to cover domestic requirements; the same remark may be made concerning basic foodstuffs such as cereals. Once the present productive capacity of Italian industry is known, together with the technical relationship between the quantity of the product and the quantity of production factors required, it should be comparatively easy to draw up a program for the quantity of commodities needing to be imported. The basic food requirements of the population are equally easy to determine.

But in the case of imports of producer goods it is quite another matter. Many of these commodities, or at least satisfactory substitutes, are produced by Italy in sufficient quantities. Hence a program concerning them needs to be drawn up with great skill in order to avoid unnecessary imports which, if utilized, would compete harmfully with domestic products and, if not utilized, would weigh heavily on the budget.

Secondly, imports of commodities having a specific destination, such as plant and machinery (coal and wheat have a general destination), are obviously more difficult to plan and any mistakes made are bound to weigh far more heavily on economy, since such commodities, belonging as they do to the sector of

fixed capital, unavoidably leave a lasting mark on the productive processes into which they are inserted.

All these difficulties exist and must be overcome: the experience acquired during the first year of putting this complex system into practice should help us to overcome them. Moreover, it is through the reorganisation of economic equipment that it will be possible, after the experimental period of the first year, to increase production and trade among the countries of Europe — an essential condition if Italy is to become self-supporting by the time the Program ends in 1952-53.

This strengthening of Italy's productive activity will have to be fitted into the framework of European cooperation and here other difficulties will crop up. The object of OEEC is to create an interdependent connection between European productive activities which should succeed in removing the friction that formerly broke up the economic unity of the Old Continent and led to exaggerated forms of autarchy. This is a very interesting subject, concerning which, however, no agreement has as yet been reached by the various countries, except in abstract statements. The reality is very different.

Just recently, for instance, there has been the dissent expressed by the French Economic Council concerning the planned Customs Union between Italy and France, caused, among other things, by the fear that Italy's surplus population may shift into the neighbouring Republic, increasing unemployment there. Now the experience of the first year of ERP has shown that Italy has made great progress in all economic sectors, but that its surplus population — causing large-scale unemployment that cannot be reabsorbed by the productive cycle — remains the factor conditioning its definite recovery. The ECA «Country Study» on Italy (February, 1949) quite rightly insists on the necessity of a joint international effort in the next few years aiming to facilitate mass emigration from Italy. It even goes so far as proposing that «encouragement» loans be granted to countries willing to absorb some of the Italian emigrants. Although the statements made by the French Economic Council do not appear very encouraging, history teaches us that the road to international economic cooperation is long and fraught with difficulties. ERP has made the first step along a path that must be followed in the interest of all the countries of Europe.