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ITALIAN MONETARY AND EXCHANGE POLICIES UNDER FASCISM¹

Italy has developed a policy of self-sufficiency and exchange control in the last few years due to international pressure and sanctions. The exchange rates cease to be free; there is no arbitrage; and governmental agencies control the supply and demand for foreign exchange. Bilateral foreign-trade agreements are encouraged, and clearing agreements are concluded to pay for goods from abroad. Exporters are aided by special price dispensations. The internal price structure gets out of harmony with the international price equilibrium, such as it is.

Banking, moreover, has become a virtual monopoly of the government. The I. R. I. made heavy loans both to industry and private banks, which soon became public banks. The *Banca d'Italia* ceased to be owned by private stockholders in 1936. The entire credit system gradually passed over to the control of the powerful committees of the government which rule through the central bank.

I

What interests economists and students in the mechanics of totalitarian states is just how they do it. It is too simple to say that "everything is controlled" and let it go at that. It is also erroneous to assume that all controlled economies operate much the same way. The more curious will want to know the details of economic control. The development of Italy under fascism has been directed toward the ends of autarchy and armaments in the last few years. The purpose of this article is to trace the development of the government programs through the growing control of monetary and exchange policies.

A policy of balanced foreign trade necessitates control of the exchanges. In Italy the control of the imports and exports started in 1934; but it was not until May, 1935, that Guarneri, a capable economist, was appointed Superintendent (later Undersecretary) of Foreign Trade and Exchange. In November, 1937, the position was further dignified by making him a member of the Cabinet. He held this post until the Cabinet shakeup at the end of October, 1939, when Riccardi succeeded him.

Under the rigid controls imposed, exchange rates ceased to be free market rates. The entire internal and external monetary structure is managed. Italian exporters must deliver claims on foreign buyers to the central exchange authorities. There is only one buyer for such bills—an agency of the state. In order to send money abroad, importers must get approval from the office of the Secretary of Foreign Trade and Exchange. Thus, there is only one seller of foreign funds. Consequently, the Institute of Foreign Ex-

¹ While this article represents my own thinking and point of view, the inspiration for it came from Louis Rosenstock-Franck's excellent new book, *Les Etapes de l'Economie Fasciste Italienne*, Paris, 1939. Much of the illustrative material is Rosenstock-Franck's, although I have brought everything up to date and used other data acquired during my recent sojourn in Italy. The approach is my own. The excellence of this book and M. Rosenstock-Franck's earlier one, *L'Economie Corporative Fasciste en Doctrine et en Fait*, 1934, makes one wonder why some American publisher has not put out English editions of these objective studies.

change has a monopoly over all Italian international payments. This agency has branches in all the principal financial capitals of the world. Imports are limited by a licensing arrangement whose purpose is to carry out the autarchic principles of the government. It is estimated that 90 per cent of all imports fall into this category. Of course, exports are encouraged where necessary by means of subsidies, although not to the same extent as in Germany. Another device is the clearing agreements which Italy has made with Germany, England and many other countries. The British-Italian agreement of 1936 requires 70 per cent of Italian exports to England to pay for a like amount of imports from England, while the remaining 30 per cent of Italian exports to England are used to pay for balances due England on past trading. The clearings idea is based on a philosophy of almost pure barter. In Italy's trade with Germany, no gold passes the frontiers; it is all done on the books. This limits the opportunity for triangular and multilateral trade.

Payments due abroad are delayed or paid only in part. The amounts due are kept in blocked accounts. For instance, during the sanctions period of the Ethiopian campaign, balances due foreigners were held by the *Banca d'Italia*. The Germans have used this device even more extensively; and, in these war days, we can note that England and France are following a carefully directed foreign-trade policy. In Italy the hope is that an equal value of Italian goods will be bought. In fact trade treaties often stipulate reciprocal purchases. The blocked account can be made worth less or more by fixing an arbitrary rate of exchange. There is no arbitrage, and hence no tendency to equalize these rates. Every transaction must be agreed to by the authorities, with the consequent red tape. This insistence on approval of all transactions, and the consequent delays, interfere seriously with the volume and free flow of trade. Actually Italy's machinery of exchanges requires only 1,250 workers in the office of the Secretary of Foreign Exchange and Trade.² To these must be added part of the 650 additional employees of the *Banca d'Italia*.

Autarchy or "streamlined mercantilism" is not entirely popular with Italian merchants. For example, government bureaucrats determine how much meat shall be imported and from what countries it shall be bought. Italian meat dealers of long experience feel that they can buy more wisely at lower prices. Racheli, head of the Confederation of Merchants, claimed in *Il Sole*, July 6, 1936 (Milan financial paper) that autarchy was leading to higher prices for meat, and that "Italian cattle dealers know where to get the most for least." In the case of sorely needed raw materials, the total imported stock is placed in the hands of a large company, a government sponsored body (such as the Cotton or Wool Institute) or another government agency for distribution throughout Italy. It is claimed by

² In Germany the exchange bureaucrats are much more numerous.

Rosenstock-Franck³ that the Cotton Institute makes huge profits from this distributive function. It affords an excellent opportunity for governmental favoritism. The Italian consumer pays a high price for rice, while it is sold abroad at competitive dumping prices. Another device, according to Demaria, has been to conceal dumping, since the devaluation of the lira in 1936, by valuing exports at the old rate (.065 grams of gold per lira), while imports are valued at the new rate (.046 grams).

Further devaluation of the lira is taking place at the present time. The tourist lira which has been selling at about 21 lire to the dollar is now selling at the rate of 23.60 lire. Also, Italian exporters have been receiving a virtual bonus of 20 per cent since February, 1940. For example, instead of receiving 1,976.50 lire* for each \$100 of foreign exchange, an exporter now obtains 2,360 lire from the exchange authorities.

Italy exports fruits, wine, food pastes, cheese, sulphur and mercury with little difficulty; but her finished goods must be exported at very low or dumping prices. Most of the 1937 trade deficit of 5 billion lire represented payments for raw materials. In tonnage, exports were about twice imports. In other words, Italy sells cheap and buys dear. She exports cotton and woolen goods at the expense of home consumers who get less of these goods or substitutes. The result of these policies is higher internal prices and lower external prices. The exporter is favored. He can buy his raw materials from the proper import board at less than real costs, and hence can sell abroad at a low export price. The producer of similar goods for the home market must pay higher prices (that is, above real costs) for his raw materials, and consequently sells them to the Italian consumer at increased prices.

The wheat tariff which was reduced in 1936 to 18 lire per quintal has no real effect under existing regulations. To equalize the external and internal prices for wheat in 1939, the tariff would have had to be 47 lire per quintal. However, the government controls both the supply and price of domestic and foreign wheat through the wheat pools (*ammassi granari*). The reader may well ask, "Why have such a tariff?" Perhaps it serves to delude the Italians into thinking their domestic price for wheat is not as high as it is. Another purpose may be to mislead foreigners. A further consequence of the government emphasis on self-sufficiency in wheat has been a reduction in pasturage for cattle and a reduction of about 15 per cent in meat consumption from 1934 to 1939.⁵ Also, while the policy of more babies may fit in with fascist militarism, it is hardly consistent with autarchy to encourage increases in the number of mouths to feed.

³ In *Les Etapes de l'Economie Fasciste Italienne*, 1939.

⁴ This would be in accordance with the present rate of exchange—19.76 lire to the dollar, or 5.05¢ per lira, which has been in effect since September, 1939, when it was 5.26¢.

⁵ The Italians are eating more fish.

The control authorities must decide how much to allot for different purposes within the state, from what countries to buy and to what individual Italian firms the imports should go. Under this system internal prices get out of touch with external prices. The international price equilibrium is destroyed and the competitive power of domestic industries in foreign markets is lowered to the point where subsidies are needed in some cases.

Meantime wheat costs Italy one-third more under autarchy according to Professor Carl Schmidt; synthetic rubber four times as much as natural rubber; domestic cotton three times as much as the imported product; and hemp twice as much as imported jute. In 1936 Demaria claimed Italians had to pay 2,800 lire a ton for lead, a *prezzo corporativo* (corporate price), whereas its actual cost of production was only 2,250 lire a ton. This arbitrary price was handed down by the *Ente di Privilegio* (a term actually untranslatable, meaning a privileged body created by the government, or government control board) in concert with the Office of National Metals under the *Commissariato Generale per le Fabbricazioni di Guerra* (War Industries Board). The authorities were attempting to "stabilize" production with a view to military and commercial needs through an autarchic price policy. The tremendous growth in the use of hydro-electricity has not been an unmixed boon to Italy's program, since it costs industry one lira (5.05¢) per kilowatt hour.

It must be remembered that autarchy is not an essential part of the fascist economic structure. That is, Italy has resorted to a policy of self-sufficiency, only because of international-trade policies and sanctions. The fact that it did not appear until thirteen years after the march on Rome tends to bear this out. It is a common error to assume that totalitarianism and autarchy go together. At present, Great Britain and France are controlling their foreign-exchange rates and foreign purchases. Yet, we could hardly call either country totalitarian. Any country will adopt autarchy and control of the exchanges in times of peace or war, if it seems to be the best policy. There is much careless thinking in this sphere of economics.

II

The new emphasis in Italy's economy has led to revolutionary changes in the banking and credit structure. The *Banca d'Italia*, Italy's central bank, ceased to be a private bank in 1936. The private stockholders were paid off. Its capital was fixed at 300 million lire and the stock is owned by savings banks, banks of public interest (banks completely controlled by the government) and insurance companies. It was brought under closer governmental supervision and control.

"The (Italian) banker has lost all autonomous action and all initiative within the economic picture. He carries on a simple routine which represents a drainage of capital, giving effect to a plan set up by the supreme

authorities." Such is Giovanni Demaria's opinion of fascist banking.

Mussolini rules the credit structure through the triumvirate of Azzolini, Governor of the *Banca d'Italia*, Beneduce, President of the Industrial Reconstruction Institute (I. R. I.), and Riccardi (formerly Guarneri), Secretary of Foreign Exchange and Trade. In line with the general credit reforms in 1936, the government created an Interministerial Committee for Credit, consisting of *Il Duce*, the Governor of the *Banca d'Italia* and the Ministers of Finance, Agriculture and Corporations. The detail work was handed over to the newly created Inspectorate for the Defense of Saving and the Exercise of Credit, presided over by the Governor of the *Banca d'Italia* and including the fifteen counselors selected for three terms. This commission works with the Ministry of Corporations which has the power to approve or reject applications for new productive equipment or addition to old. Any credit needs for these developments are passed on by the Inspectorate. Delays are kept down to one month; and commercial loans may not run for more than a year. The credit authorities created new categories. The Bank of Naples, the National Labor Bank, the Institute of *Santa Paolo di Torino* and the *Monte dei Paschi di Siena* were made "organs of public interest." Banks of national character were designated in some thirty provinces. Three large commercial banks, the *Banca Commerciale*, the *Credito Italiano* and the *Banca di Roma* were placed under complete control of the régime.

The story of how these three powerful banks came under complete sway of the government is typical of how temporary fascist expedients often become part of permanent economic policy. Later the professors of corporate economy supply the new "economic theory" to fit the case. In 1931 the three banks in question were in a bad way. They had accumulated millions of lire of frozen assets, invested in industrial securities of doubtful value. The portfolio of the *Banca Commerciale* of Milan contained shares, once valued at 4 billion lire. The Industrial Reconstruction Institute (I. R. I.), a government loaning agency, came to the aid of Italian banks to the tune of 7½ billion lire, very much as the Reconstruction Finance Corporation in our country invested in newly created preferred stock of weak banks. A fair statement would be that from 1931 to 1935 the Italian government saved the banks and capitalism, but neatly forgot to get out. Italian banks, just as German banks, have always been more involved in the financing of long-time business investment than have American or British banks. The I. R. I. helped industry as well in the dark days of the depression. For example, the S. I. P. (*Società Idroelettrica Piemontese*), a large hydroelectric combine, was greatly aided by the I. R. I. In the reorganization, Conti, President of the *Banca Commerciale*, became head of the S. I. P. Thus, the banks, helped through the difficult days by the government, have sacrificed their autonomy to the state.

The banking reforms reflect the needs of those days—the war economy, autarchy and resistance to sanctions. Just as the Italian government fell almost accidentally into price control during these times, so it developed nationalization of credit and a hierarchy with which to carry it out. In our own country the depression and the New Deal brought significant banking changes. The new banking laws of this period gave the Administration greater control over credit, money and banking policies, while the R. F. C. loans to embarrassed banks helped keep these institutions alive and gave the government a stake in them.

Perhaps a word is needed to describe the two Italian credit agencies: the I. R. I. and the I. M. I., the Italian Credit Institute (*Istituto Mobiliare Italiano*). In the United States we have had just one agency, the R. F. C., that made loans to banks and industry alike. The I. M. I. was formed November 13, 1931, to extend intermediate credit up to ten years in the form of loans to private industry against real estate or other acceptable collateral. Also it could participate in new issues of private industries. Its capital was 551 million lire. In 1933 the I. M. I. extended loans of 200 million lire to *Terni* and 140 million lire to *Italgas*, both of which are controlled by the *Banca Commerciale*. In 1936 the I. M. I. took over both short and long-term loans (ten to twenty years), but in 1937, the I. R. I. again assumed the long-term burden and the I. M. I. went back to short-term credit under the guidance of the *Banca d'Italia*. Both these credit institutes obtained their funds from publicly sold bond issues, guaranteed by the government and tax free, as is the way with government securities the world over.

The I. R. I. (*Istituto per la Ricostruzione Industriale*) is actually a state holding company. In addition to helping limping banks, its function has been threefold: (1) to finance industry through 15 to 20-year loans, guaranteed by the government; (2) to take care of the liquidations of industry, and (3) to finance new industry and thus help autarchy. For example, the I. R. I. supplied capital in equal shares with *Pirelli*, the rubber trust, to set up a synthetic rubber company. The profits of the I. R. I. are divided in the following way: 25 per cent to reserves, 10 per cent to training industrial apprentices and 65 per cent to the public treasury.⁶ The I. R. I. owns half the capital of the *Finmare*, the holding company that controls all Italian shipping, and the same share of the stock of the *Finsider*, the steel and iron trust.

The concentration of the control of credit in the Inspectorate for Saving and Credit means that all credit problems, even those of the Ministries of Finance and Agriculture are gradually coming under the domination of this powerful committee of the *Banca d'Italia*. Part of its work has been to straighten out the affairs of all credit institutions in Italy. The depression

⁶ The government also shares liberally in the profits of the *Banca d'Italia*.

witnessed the disappearance of approximately 25 per cent of the Italian banks through mergers or discontinuance. The governor of the *Banca d'Italia*, as head of the Inspectorate has the power to close weak banks, merge others, order what kind and how much credit to grant and examine all banking institutions. In 1936 there were 353 closings of credit institutions and 106 openings. Thirty-six of these were in districts with no banking facilities. Also a representative of the Inspectorate sits on the consultative committee for new industrial plants. The first task of the Inspectorate was to cure and adjust the whole national credit structure. Its second task, more delicate and constructive, has been to redistribute credit and national savings in such a way that it will develop best the economy of the nation.

In the corporate state the organs mainly responsible for trade are no longer the bank, the stock exchange and the capital market; but, for the major part, the functions of these have been transferred to the central authorities, to the guilds (or corporations) and the *Enti di Privilegio* that regulate the market by using complementary parts of the economy and the "solidarity of the classes," getting rid of the antique banking set-up and cutting out a number of intermediate dealers, markets and commercial institutions. And that constitutes the "new order" in fascist Italy.

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