State Participation in Business Concerns in Italy

by
GIANDOMENICO COSMO

I - A Complicated Picture.

1. — So-called «partecipazioni economiche» (financial holdings), side by side with the other forms (1) in which the State exercises productive activities, occupy a place of special importance in the Italian economic system. Their fundamental characteristic is the exercise by the State of a business activity through bodies with independent legal standing either as a public corporation or a joint stock company.

In Italy the State participates through this system in a great many branches of business activity as a result of many causes and for a variety of reasons:

(a) to salvage certain undertakings (such as the Società Nazionale Cogas - the Cogne Mines Co.), or even whole branches of national economy (by setting up under the impetus of the great depression of the 1930’s the Institute for Industrial Reconstruction — I.R.I. — of which mention will be made further on);

(b) to meet the needs of the «autarchic» policy followed after 1935, by setting up, for instance, the Azienda Minierile Metallitica Italiana (Italian Metallic Orzes Corporation) and the Azienda Carboni Italiani (Italian Coal Corporation);

(c) to secure at least partial freedom from foreign trusts in so far as essential new materials are concerned (for instance, the Azienda Generale Italiana Petroli - Italian General Petroleum Corporation);

(d) for national defence requirements (for instance, the strengthening of the Italian steel industry);

(e) for promoting enterprises which otherwise would not have been undertaken by private capital owing to lack of sufficient incentive, or because extensive long-term investments were required (Alitalia Airlines Co.).

2. — By far the largest part of the State’s participation in productive activities was the consequence of the first of the five causes above listed, i.e. of the salvaige operations that led to the formation of the I.R.I. (Institute for Industrial Reconstruction), which, in order of time, however, participation in financial concerns preceded by at least ten years that in non-financial business enterprises.

In the case of financial participation, the formation of the National Insurance Institute (Istituto Nazionale delle Assicurazioni) dates back to April 1912, followed shortly afterwards by the establishment of the Consorzio Sussidiari in Valori Industriali (2) and of the Istituto Italiano dei Cambi (Italian Foreign Exchange Institute) now the Ufficio Italiano dei Cambi. In the period between 1919 and 1924 a Government Agency, the Cassa Depositi e Prestiti (3), was authorized to take over a part of the capital of the Consorzio di Credito per le Opere Pubbliche (Credit Consortium for Public Works) (4) and of the Istituto di Credito per le Imprese di Pubblica Utilità (Credit Institute for Public Utility Undertakings) (5), while the Italian Treasury took over a share of the capital of the Banco Nazionale del Lavoro and now holds it almost all.

Outside the financial field, the first intervention on the part of the State followed the collapse of the Banca di Sconto at the end of 1917, beginning in the industrial field with the Giovani Antonio Co. of Genoa and its separation from the concern that afterwards became the Società Nazionale Cogas.

(1) The Aziendino di Sussidiari in Valori Industriali (Credit Consortium for Industrial Securities) is an institute for medium-term credit, founded in 1944 and preceded over by the Governor of the Bank of Italy. It rediscusses its bills largely with the Bank of Rome.

(2) The Cassa Depositi e Prestiti (Central Agency of the Post, Savings, Italy), which was set up under an Act of 175-1861, No. 1220, may be properly described as a Deposit of the Treasury, regulated by special legislative rules. On the one hand it receives the Post Office savings deposits, and on the other it makes advances to certain public bodies (Con- nessioni, Prestazioni, Consorziato, Public Corporations) for purposes of public utility.

(3) The Consorzio di Credito per le Opere Pubbliche (Credit Consortium for Public Works) is a public corporation set up in 1919 (R. Decree Law, 294, No. 1220) which makes loans for the execution of public works (road reclamation works, railway electrification, public lighting, etc.).

(4) The Istituto di Credito per le Imprese di Pubblica Utilità (Credit Institute for Public Utility Undertakings) is a public corporation set up in 1919 (R. Decree Law, 250, No. 1220) closely connected with the Consorzio di Credito per le Opere Pubbliche. So far it has specialized in financing electric and telephone companies.

The action of the State in taking over the industrial shares held by the three leading Italian banks (which, as a result of a great depression of the thirties, were overloaded with large frozen credits) led to the formation of the I.R.I. which was set up on January 23, 1933. The I.R.I. took up the problem of an effective and lasting reform of the Italian banking system purging the deposit-banks of the activities and operations of non-commercial character and thus becoming a great holding institute for the management of the industrial stocks detached from the banks. The first industrial concern established directly by the State was the Azienda Generale Italiana Petroli whose foundation dates back to 1936. It was the forerunner of others designed to meet the needs of the so-called autarchic policy after 1935 and organized as public corporations (Aziende Carboni Italiani, Enot Nazionali dei Metalli non-ferrosi, Banca Nazionale del Lavoro), or else as joint stock companies.

After the vicissitudes of the war, which entailed very heavy losses on the concerns in which the State was most serious of all was the loss of shipping suffered by the Finmara (6) — the policy of establishing new business organizations in which the Government is a partner, has continued in Italy. We will only mention the establishment in 1947 of the Enot Sideral e di Elettricità (Italian Electric Power Corporation) and, likewise in 1947, the founding of the Compagnia Italiana Autonerei Turistiche (Italian Company for Motor-Car Touring Services). The banking system has been enlarged by the foundation of the Banco di Sardegna, a new public credit institute of a regional character. After the liquidation in 1947 of the Italian Aviation Company, Alitalia, two new Air Navigation Companies, the Alitalia and the Linee Aeree Italiane were founded, and since three months ago the Istituto Nazionale Luce (National Institute for Educational Cinematograph) was reconstructed.

(5) «Finmara» (Società Finanziaria Marittima, Financial Company for Maritime Activities) is a ship-purchasing enterprise set up by the I.R.I. with the encouragement and control of the shipping sector.
The State may have either all the holdings in its hands as in the case of the Società Nazionale Cogne; majority holding as in the case of the Azienda Italiana del Lavoro; minority control holdings as in the case of the S.I.P. (Società Idroeléctrica Piemontese - Piedmontese Hydroelectric Co.); or minority holdings only in the case of the Monte Amista Mining Co. From the standpoint of the relations existing between the State and the firms concerned, participation may be direct (as in the case of the National Metallurgical Ores Corporation) or indirect, the holding being in the hands of the I.R.I. (as in the case of the Banks of National Interests) or assigned to an autonomous corporation (as in the case of the Compagnia Italiana Turismo - the Italian Tourist Company - owned by the State Railways).

There are several forms of intervention that have given rise to a very great variety of relations and to a number of drawbacks. We are not alone to have been taken of the sub-holdings and chain companies the network of State participation would be further and more greatly complicated (7).

The typical Italian system of State intervention in business activities takes the form of what is known as "participazione" which gives it control over a company (as for instance in the case of the concerns controlled by the I.R.I.). This system of State intervention is little known in other countries, where preference is given to nationalization, under which private ownership is fully replaced by State ownership (8).

Unfortunately, the control exercised by the State over an extensive sector of Italian economy is not yet accompanied by a corresponding comprehensive policy, but rather uncoordinated efforts which fed the influence on that antirevolutionary irritation of the State which was a feature of the economic policy of the Fascist regime (9).

II - Importance of State Holdings through the I.R.I.

5. - The absence of a central office in charge of State participation as a whole makes it very difficult to appraise with sufficient accuracy the weight and importance thereof in the nation's economy. Moreover it is often forgotten and this is excusable in view of the extremely complicated nature of the relations that these holdings by no means constitute full ownership of control of a concern.

In any case, the importance of the complex of business concerns under actual State control to the economic life of the country is substantial. As is shown in Table I, companies and corporations controlled by State capital are responsible for high percentages of the activity of vital economic sectors - such as banking, shipbuilding, power, iron, steel and engineering industries, etc. (10).

The importance of so-called State "participazione" in Italian business life is also acknowledged (10).

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(7) An example: almost the whole stock of the Società Idroeléctrica dell'Oculta (The Claudia Hydroelectric Company) is held by the I.R.I. (Azienda Idroeléctrica dell'Oculta of the Electric Services of Rome), of which the Società Meridionale di Elettricità di Napoli (Southern Electrical Company) is the majority stockholder, a company in which the I.R.I. has a minority holding. This letter is a Company for making electric apparatus controlled by I.R.I. Moreover large share holdings in the other electric companies in Italy are held by the Società Italiana per le Strade Ferroviarie Italiane (Italian Company for the Southern Railways) and by the Finanziara Nazionale delle Assicurazioni Finanziarie (in which the I.R.I. has minority holdings).

(8) Unlike other European countries, Italy has not nationalized any branches of her industry since 1919. This possibility is measured explicitly provided for by Art. 43 of the new Italian Constitution, which came into force on January 1, 1947. The said article lays down that "for purposes of general utility the law may rescind from the State, or may confer, by expropriation or against compensation, to the Government, to public corporations, or to bodies of workers or of users, certain specific undertakings or groups of undertakings for performing certain public services, or for providing sources of power, or possessing virtual monopolies, which are of general interest."


directly shown by investment requirements. It
is estimated that the investments needed to
assure the normal life of the businesses in
which the Government has holdings ought to
amount to some 15% of the gross (public and
private) domestic investments. The net invest-
ments made in 1951 by the State should
assumably amount to 170,000-180,000 million
lire, of which those relating to businesses in
which the I.R.I. is concerned amount to about
150,000 million.

In the following paragraph we shall refer
specifically to the holdings in the hands of
the I.R.I., which occupies a central position in
the Italian economic system.

6. — At the end of December 1949 the
I.R.I.'s direct share holdings had a value of
nearly 100,000 million lire, as shown by data
published by the *Associazione fra le Società Ita-
liane per Azioni* (see Table II). At the same
time the capital of the 2077 share companies
existing in Italy amounted to 811,700 million
lire.

**I.R.I. SHARE HOLDINGS**

(*Statement at 31/12/1950*).

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Millions of Lire</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>160.1</td>
<td>3.14</td>
</tr>
<tr>
<td>Shipbuilding</td>
<td>116.2</td>
<td>2.24</td>
</tr>
<tr>
<td>Electrical</td>
<td>116.6</td>
<td>2.24</td>
</tr>
<tr>
<td>Building</td>
<td>68.9</td>
<td>1.28</td>
</tr>
<tr>
<td>Banking and financial</td>
<td>6.6</td>
<td>0.12</td>
</tr>
<tr>
<td>Telephone</td>
<td>6.2</td>
<td>0.12</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>6.1</td>
<td>0.12</td>
</tr>
<tr>
<td>Mineral and chemical</td>
<td>3.3</td>
<td>0.06</td>
</tr>
<tr>
<td>Total</td>
<td>998.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Better to appreciate the figures in Table II,
should borne in mind that when the I.R.I.
was set up, it took over from three major com-
commercial banks (Banca Commerciale Italiana,
Creditto Italiano, Banco di Roma) and from
their trust companies, all the stock they held.

On January 1, 1954, the I.R.I. thus had majority
holdings in Italian joint stock companies to a
nominal value of 9,039 million lire; besides
these, it had minority holdings of a nominal
value of 1,269 million lire. The total nominal
value of such holdings therefore stood at 10,309
million lire, equivalent to 21.49% of the total

capital issued as at the 1st January 1954 by the
share companies existing in Italy.

Of particular importance were the operations
carried out by the I.R.I. to rehabilitate concerns
which it had taken over and resell its hold-
ing in those concerns to private entrepreneurs.
By 1953 the sum involved amounted to 7,000
million pre-war lire, its efforts being directed
above all to average-sized and small businesses
(among others, all the concerns engaged in
the textile industries). Expressed in present
day lire, the operations of this kind carried out
up to 31st December 1950 amounted to
45,500 million lire (14).

At the end of 1950 the capital investments of
the I.R.I. were concentrated on a relatively
small number of large business groups amount-
ing in all to 207,500 million lire, of which about
180,000 million lire (90%) were invested in
electrical, telephone, steel, engineering and
shipbuilding, shipping and banking companies.
In regard to this concentration on certain bran-
ches of activity, it should be noted that in
Italy proposals are often advanced in the press
and in Parliament for the return of the stock
held by the I.R.I. to private enterprise. As a
matter of fact, given the slow accumulation of
new private venture capital, there is but very
little chance of some of the large I.R.I. share
holdings being transferred to private hands,
especially those in engineering enterprises — as
the F.I.M. experience has lately proved (12).
Indeed, just the opposite is taking place.
Through the I.R.I., the State is channeling pri-
ivate capital into the engineering trades which,
among other things, play an essential part in
providing employment for workers.

Recently, when it was a question of raising
the capital fund of the I.R.I. (Spring of 1951)
the parliamentary report that accompanied the
Bill expressed definite views on the eco-
nomic problem of the I.R.I. (13). In the opinion
of the Reporters (13):

(a) the I.R.I. should not be considered
merely as a provisional outcome of Government
emergency measures; it is now a public insti-
tution to offset the continued shrinking of
private venture capital;

(b) the State, acting through the means
of control provided by the I.R.I., is able to
effect a guiding action on national produc-
tion as a whole;

(c) therefore, the rehabilitation and ex-
pansion of the industrial system as a whole
requires that the I.R.I. be preserved and
strengthened;

(d) the I.R.I. should, however, cease
to take an interest in those concerns over which
it does not exercise effective control, provided
the holdings do not serve special objectives of
general policy. In any case, the I.R.I. should
not take over any further concerns that may
be in financial difficulties.

7. — On the other hand, the present
system of companies of a partly private
and partly public character, of which many of
the concerns controlled by the I.R.I. offer an
example, allows private capital to participate
in financing public enterprises. While in the
opinion of some observers, the system of *mixed
participation* presents serious drawbacks,
since it sometimes leads to pressures and en-
croachments by private capitalistic groups, it
is nevertheless certain that under present
conditions it does not seem possible to modify
relations that have grown up gradually over the
course of years. Indeed, the contribution
made by private capital to the businesses in
which the I.R.I. is interested is very large.

Thus, of the investments made by the I.R.I.
group as a whole during the 3-year period
1945-49, amounting in all to 268,000 million
lire (1950 value), the industries other than en-
gineering took 174,000 million lire (55% of the
total), of which about two thirds were raised in
the capital market (125,000 million lire). The
remaining third was provided by the I.R.I.
(51,000 million lire). On the other hand, the
direct investments of the I.R.I. in the engineer-
ing concerns amounted to 117,500 million,
indeed, those industries only obtained 3,800
millions from the financial market. Owing to
the precarious conditions prevailing in this
branch of business, a large part of these invest-
ments were used to cover operating losses (14).

III - State Holdings in the Banking Sector.

8. — As already stated, State holdings in
the Italian banks are of special importance.

Three of the leading banks (Banca Com-
mmerciale Italiana, Creditto Italiano, Banco
di Roma), affected by the crisis of the thirties, not
only transferred all their frozen industrial cre-
dits to the I.R.I. in 1953, but also passed under
direct State control. Indeed, 80 to 90% of their
share capital was taken over by the I.R.I. This
was the first step in that rehabilitation which we
have referred and which culminated in the
banking reform of 1956 and in the ex-
clusion of the banks from medium and long-
term lending activities. Under the 1936-1937
Bank Act, the three major banks controlled by
the I.R.I. continued to be joint stock com-
panies described as "banks of national inte-
rest".

The *Banca Nazionale del Lavoro*, founded
in 1913, was instead described as a "public
credit institute" ("Istituto di Credito di Diritto
Pubblico"). Almost the whole of its capital is
now held by the Treasury.

The importance of State intervention on the
Italian money market was clearly stressed — in
words frequently quoted — by a former Gov-
ernor of the Bank of Italy, Prof. Luigi Ein-
ardi, who said in his Report of April 18, 1945:
"The P.O. Savings Banks are directly
controlled by the State; the public credit Institutes,
the Banks of national interest, and the ordinary
Savings Banks are public corporations. Some
of them, like the *Banca Nazionale del Lavoro*,
are directly dependent on the Treasury, while
others, like the three banks of national inter-
est, are indirectly dependent also, through the
L.R.I., on the Treasury... The only banks that, though placed like all the others under the supervision of the Banca d'Italia, can be considered to be of a private character are the ordinary commercial banks.

Prof. Einaudi concluded — and his conclusion still holds good as the statistical ratios have remained practically unchanged — that the total of banking and postal deposits in Italy are administered to the extent of 30%, by the State and to the extent of 49% either by public corporations or by Government-controlled corporations. 8% of the deposits is administered by cooperative banks and 13% only by private "capitalistic" enterprises (12).

The importance of the four major Italian banks now substantially owned by the State (Banca Nazionale del Lavoro, Banca Commerciale Italiana, Credito Italiano, Banco di Roma), is shown by Table III.

| Deposits | (all) |
|———|———|
| Bank of Italy | 2,474,000 |
| Post office savings banks | 2,183,000 |

(1) Deposits and current accounts, inclusive of inter-bank accounts.
(2) Post-office accounts are excluded.

We should add that the great majority of Italian foreign trade is carried on through these banks, which have branches and affiliations abroad.

The exclusion of the Italian banks from industrial credit operations, respected even in the difficult situation arising out of the war, remains a basic feature of the Italian banking system. The leading organizations now engaged in providing medium and long-term credit are the Consorzio di Credito per le Opere Pubbliche, the Istituto di Credito per le Imprese di PUBBLICA UTILITA and the Istituto Mobiliare Italiano (Industrial Credit Institute) in which the Government holds, through the Casa Deposito e Prestiti, a large capital. In the last few years some of the public credit institutes (Bancco di Napoli, Banca Nazionale del Lavoro, Banco di Sicilia, Banco di Sardegna) have established special Sections for industrial credit with the help of State advances and with funds of their own obtained by the issue of bonds. In 1946 also the three Banks of National Interest set up the Banca di Credito Finanziario for the same purpose.

IV - Regional Distribution of the Personnel.

9. — In a country like Italy, afflicted by serious and chronic unemployment, all questions relating to personnel acquire special importance, even in the case of semi-official institutions.

On July 1, 1949, the grand total of employees in Government or State controlled institutions numbered 1,977,440, of whom 31% were employed in the so-called "Auteuomous Administrations and independent corporations (more especially in the State Railways which accounted for 180,370). In 1950 the number of dependents in concerns in which the State has holdings was reckoned at 200,000, of whom 220,000 in industrial concerns and 30,000 in banks (6).

The prominent position occupied by the I.R.I. group is clearly shown by the fact that of the 220,000 employees, who at the beginning of 1950 were in the pay of purely industrial companies in which Government has holdings, 185,200 (88.4% of the total) were employed by I.R.I. companies. Next in importance came the 12,000 dependents of the A.C.I. (Italian Coal Company) and the 11,000 of the Cogne Mines Co.

The staff in the employ of the Banks, distributed as it is over a very large number of centres, does not give rise to significant problems. There are groups of more than 5,000 persons in two centres only, namely Milan, the headquarters of the Banca Commerciale Italiana and of the Credito Italiano, and in Rome, the headquarters of the Banca Nazionale del Lavoro, of the Banco di Roma, and of the Banco di Santo Spirito.

Some difficulties might arise should there be any important reorganization of the banking system, more especially if there should be amalgamations and mergers between important banks; but the prevailing trend to preserve the status quo justifies the exclusion of such possibilities, at least in the near future.

On the other hand, the problems of the industrial concerns with State participation are much complicated by the distribution of the personnel in the several regions of the country. As is shown by Table IV, Liguria comes first with 27.7% of the total number of employees; next comes Lombardy with 11.5% and Piedmont with 9.8%. This is an abnormal concentration due to a pathological origin (the action taken to salvage companies in financial difficulties) and made obvious as soon as we compare the ranking order of the regions as set forth in Table IV with that shown for the total number of persons employed in industry in the several parts of Italy. When considered in this order, Lombardy occupies the first place, followed by Piedmont, while Liguria comes third at a considerable distance (see Table V).

| Regions | L. R. I. | A. C. I. | Cogne | Sicily | Total | % |
|———|———|———|———|———|———|———|
| Liguria | 50,000 | —— | —— | —— | 50,000 | 25.5 |
| Lombardy | 24,000 | —— | —— | —— | 24,000 | 11.5 |
| Piedmont | —— | 10,000 | —— | —— | 10,000 | 6.6 |
| Genoa | —— | 5,000 | —— | —— | 5,000 | 2.6 |
| Cuneo | —— | 5,000 | —— | —— | 5,000 | 2.6 |
| Total | 185,200 | —— | —— | —— | 185,200 | 100.0 |

(1) The figures are indicative of the staff in the employ of concerns in the Trieste Free Territory.

| Regions | Persons employed in industry with Government participation (1949 Census) | Persons employed in industry with Government participation (1950 Census) |
|———|———|———|
| Liguria | 35% | 35% |
| Lombardy | 11% | 11% |
| Piedmont | 9% | 9% |

The situation is still further complicated by the fact that some of the concerns — as for instance the Avusalo — are the leading concerns of important cities. Indeed, the bulk of the workers are centralized in a few large ports or in their immediate neighbourhood (as for instance, Genoa — see Table VI).

A large percentage of the workers employed in concerns in which the State has holdings is accounted for by those engaged in the engineering trades organized under a sub-holdiing of the I.R.I. (the Finsmeccanica). In 1950
the Finmeccanica concerns employed 4% of the workers engaged in the I.R.I. industrial plants. Of the 84,000 workers on the payrolls, the shipyards alone had 37,000 as compared to the 27,000 in their employ in 1938, the increase being due to war time expansion.

In addition to these figures, there are the workers in the employ of the concerns which have remained under the control of the Fund for financing the engineering industries. At the beginning of 1939 they numbered some 35,000 (this figure was considerably reduced afterwards).

<table>
<thead>
<tr>
<th>Country</th>
<th>I.R.I.</th>
<th>A.C. I.</th>
<th>Cogee</th>
<th>Sunday</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>25,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>25,000</td>
<td>25.0</td>
</tr>
<tr>
<td>Milan</td>
<td>10,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>10,000</td>
<td>10.0</td>
</tr>
<tr>
<td>Naples</td>
<td>6,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>6,000</td>
<td>6.0</td>
</tr>
<tr>
<td>Turin</td>
<td>28,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>28,000</td>
<td>28.0</td>
</tr>
<tr>
<td>Total</td>
<td>113,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>113,000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

When it is remembered that some 40,000 persons are working in factories for national defence, almost all of which can be classified as engineering works, while another 9,000 are engaged in the repair ships of the State Railways, the overall figures for workers engaged in the engineering works directly or indirectly controlled by the State, is about 155,000, that is to say about 22 per cent of all persons engaged in the Italian engineering trades, estimated at some 700,000.

As is well known, the Italian engineering trades are still faced by serious difficulties standing in the way of reorganization and modernization and by lack of orders, especially in the case of the group controlled by the F.I.M. In order for these difficulties to be overcome not only would more capital be needed but above all it would have been necessary to reduce the number of people on the payrolls and to prevent professional training and normal replacements.

Indeed, structural unemployment and the impact of local interests explain the great lack of elasticity that characterizes some situations that would otherwise seem incomprehensible, if considered only from a bookkeeping analysis of profit and loss.

Under these conditions it is unlikely that there will be further expansion of the staff employed in concerns in which the Government has holdings. It should, however, be noted that at least, in the Italian Parliament and in the press have expressed the hope that the I.R.I. will play a more active part in the industrialization of Southern Italy. A Report tabled in the Chamber on the occasion of the debate on increasing the capital fund of the I.R.I. (April 12, 1951) asserted in this connection that «an important aspect of the I.R.I. relates to the part it may be called on to play in the economic development of Southern Italy. Even now the holdings of this Institute in that part of Italy are relatively larger than those of the other corporations». «In North and Central Italy the personnel of the concerns controlled by the I.R.I. account for 37.5% of the total employed by the major steel engineering groups; in the South they account for two-thirds of the total's. Table VII, taken from the Report from which we have quoted, shows the respective data.

### Table VII
#### PERSONNEL OF THE STEEL AND ENGINEERING CONCERN (1950)

<table>
<thead>
<tr>
<th>Geographical distribution</th>
<th>I.R.I. personnel</th>
<th>All concerns</th>
<th>I.R.I. % of all</th>
</tr>
</thead>
<tbody>
<tr>
<td>North &amp; Central Italy</td>
<td>115,000</td>
<td>376,000</td>
<td>31.5</td>
</tr>
<tr>
<td>Southern Italy</td>
<td>16,000</td>
<td>21,300</td>
<td>76.2</td>
</tr>
<tr>
<td>Total</td>
<td>131,000</td>
<td>397,300</td>
<td>33.1</td>
</tr>
</tbody>
</table>

### V - Need of a General Reorganization.

While the Italian State has gradually built up a very complex economic apparatus, it lacks efficiency and still lacks a definite policy in the management of the holdings it has taken over. It can safely be said that the need of greater coordination is generally felt today, though it will not be easy to secure it. Coordination is essential and is growing more urgent than ever, because the continuing financial effort is a very big one. Indeed, the situation of some of these corporations seems to be very carefully looked into, so as to come to a definite arrangement which will make it possible to judge whether they are parasitic formations or concerns really of value to the economic life of the nation. Their management costs are not reflected in the budget, but if the volume of expenditure and the size of the investments be compared to those of the budget, it will be seen that these activities have now attained enormous proportions. Moreover, these expenses and investments will gradually increase. We are therefore faced by a most delicate problem, namely that of adjusting the traditional structure of the Italian Government machinery to meet the new needs arising from the growth of a «mixed» economy.

This is a very complex problem. In addition to the Public Administration proper, there has grown up in Italy another public administration: a State within the State, even though it be split up into a large number of bodies for which it is difficult to state an exact figure. And the question arises: can the State, in its original institutional structure, perform all the functions of a modern State, or is it necessary to delegate to new and different bodies, foreign in any case to the traditional organization of the State, newer and more intricate tasks?

11. — A preliminary step towards reorganization was taken at the end of January 1950, at the time of the formation of the sixth Ministry presided over by Sig. De Gasperi — when the task of coordinating the concerns in which the State has holdings was assigned to Minister La Malfa. After making a thorough study, La Malfa reported to the Council of Ministers on April 6, 1951, on the situation of the several holdings, and made proposals for their systematic reorganization under the control of a single Agency. This study has shown that «leaving aside marginal situations, State holdings in Italy now fall into two main sections: the holdings of the I.R.I. and the groups controlled by the «Public Property Department» (the so-called Deamast). These two organs differ fundamentally. While the I.R.I. is an independent body, the Public Property Department is a Government Administration.

According to the Report, reorganization could be carried out in one of two ways: one would be direct government administration along the lines of the present Public Property Department. In this case it would be necessary to set up a real 'Ministry for State business holdings'. This would entail the suppression of the I.R.I. and would lead moreover to a dangerous decentralization. The other method would be operation through an autonomous Agency such as the I.R.I. There would thus be a body responsible for coordinating, executing and planning.
Cheap Money: The English Experiment of 1945-47

by David Rowan

Introduction.

The purpose of this paper is to describe and evaluate the postwar attempt of the Chancellor of the Exchequer (Rt. Hon. Hugh Dalton, M.P.) to produce cheaper money—that is, to lower the rate of interest (1). From July 1945 until August 1947 it was the principal preoccupation of the monetary authority to force the rate structure downwards until it became possible for the Government to borrow at 2.5% per annum on long-term securities. This task is to describe the campaign by which this objective was temporarily achieved; to record the failure to consolidate the new rate; and, finally, to attempt an assessment of the desirability or otherwise of the policy followed.

The paper then falls naturally into three main sections devoted to description, explanation, and evaluation. Before, however, we embark upon the first part of our task it is necessary to say something about the economic background against which the Chancellor operated. We must therefore discuss, though only very briefly, the main changes produced by the war.

War Finance.

During the war the power to borrow from the market was rigorously controlled by the Capital Issues Committee. Only those organizations whose applications were approved by the Committee were permitted to make issues. Approval by the Committee meant, of course, approval by the Government. The main function of the market became the finance of the war effort. Some measure of this change can be shown by comparing the total change in the deposits of the clearing banks from 1938 with the total change in their indirect and direct lending to the Government.

The close correspondence of the two figures tells its own story. During the same period Advances declined by £206 million. The experience of the banks was broadly that of the other main financial institutions. All were engaged in the business of financing the Government and financial institutions in general absorbed a large proportion of the increase in the national debt (2).

The increase in bank deposits from 1938 to 1945 was over 100%. Since this increase would have been far smaller had the public's desire to hold money been less, the magnitude of the increase gives a measure of the public's desire for liquidity. Since the public, at the prevailing rates of interest, preferred bank deposits to securities the banks absorbed the securities and the public held the corresponding deposits. The liquidity (3) of the

(1) Increase in Money at Call = +75 (net via the Discount Market)
(2) Increase in T.D.R.s = +181 (net directly)
(3) Increase in Investments = +519 (net directly)
Total = +235

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(1) There is, of course, no single rate of interest. Dr. Dalton's objective was a low rate, which may be defined as that on Government securities having a life of 10 years and issues. The rate is measured, in this paper, by the return on Consols, which are, in fact, irredeemable.
(2) It has been estimated that the national debt formed 40-45% of the value of private property in the country.
(3) We define the liquidity of the system as

Clearing Bank Deposits Expressed in Terms of the Public

National Income