The Italian Balance of Payments Problem

by

GUIDO CARLI

1. — Table 1 sums up the more significant items in Italy’s balance of payments (1) for the first half of 1952 and the first half of 1953. The invisible items have slightly improved, the active balance rising from 176 million dollars in 1952 to 230.5 million in 1953.

<table>
<thead>
<tr>
<th>Convertible currencies</th>
<th>Non-convertible currencies</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Subtotal subject to compens.</td>
<td>Not subject to compens. through EPU</td>
</tr>
<tr>
<td></td>
<td>through EPU</td>
<td>through EPU</td>
</tr>
<tr>
<td>(in millions of dollars)</td>
<td>(in millions of dollars)</td>
<td>(in millions of dollars)</td>
</tr>
<tr>
<td>1. Goods</td>
<td>170.6</td>
<td>121.2</td>
</tr>
<tr>
<td>2. Invisibles</td>
<td>13.6</td>
<td>9.0</td>
</tr>
<tr>
<td>3. Total</td>
<td>184.2</td>
<td>130.2</td>
</tr>
<tr>
<td>4. Items in course of settlement, services operations, etc.</td>
<td>3.9</td>
<td>1.7</td>
</tr>
<tr>
<td>5. Adjusted balance</td>
<td>121.1</td>
<td>83.5</td>
</tr>
<tr>
<td>6. Compensating items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Reserves from EPU and IMF</td>
<td>99.1</td>
<td>82.8</td>
</tr>
<tr>
<td>(b) Transfer to EPU of balances held with Central Banks</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(c) Transfer to EPU of balances held with other institutions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(d) Variations in foreign balances</td>
<td>25.0</td>
<td>50.3</td>
</tr>
</tbody>
</table>

When the corrective items are taken into account, the deficit in the balance of payments is found to amount to 154.1 million dollars in 1952 and to 197.3 million in 1953. As the pay-
ments received on account of economic aid amounted to 91.1 million dollars in 1952 and to 82.8 million in 1953, the difference financed by drawing of foreign-balances was 54.0 million and 114.5 million dollars respectively (2).

2. - The payments for imported commodities have risen from 1,094.3 million dollars in the first half of 1953 to 1,100.6 million in 1953; on the other hand, the receipts from exports have fallen from 723.6 million dollars to 591.1 million. The increase of imports is accompanied by a change in their geographical distribution; the process of diversification from the dollar area towards other monetary areas has continued. The payments for imports settled in convertible currencies have fallen from 320.2 million dollars in the first half of 1953 to 261.7 million in the first half of 1953; on the other hand, payments for imports coming from the European Payments Union have risen from 649.4 million dollars to 737.0 million. Payments for imports from other monetary areas have also increased.

Receipts from exports to Europe have increased expectation of the European Payments Union, valued falling from 579.3 dollars in 1952 to 404.1 million in 1953, a reduction of 69.8 million dollars. Exports to the dollar and other monetary areas have remained at much the same level. The total reduction of exports in 1953 as compared to 1952 amounts to 66.5 million dollars, and seems to be accounted for entirely by the areas belonging to the European Payments Union.

3. - Receipts from invisible items have risen from 262.4 million dollars in 1952 to 306.7 million in 1953. The balance has shown an increase in Italy's favour of 44.3 million dollars. It is accounted for to the extent of 39.4 million dollars by heavier receipts of convertible currencies. This, in its turn, is due in part to items of an exceptional nature connected with defence measures, which rose from 11.1 million dollars in 1952 to 21.0 million in 1953. Moreover, in 1953 receipts from off-shore orders have amounted to 19.1 million dollars. A contribution has also been made by the heavier receipts from tourists and emigrants (the former rose from 6.7 million dollars to 16.6 million; the latter from 11.3 to 18.8 million dollars). The increase seems to be due to the alignment of the free market and official market quotations for the U.S. dollar in the first half of 1953, an alignment which has directed the tourist and emigrant dollars towards official channels. Also in the case of the convertible currencies cleared through the European Payments Union there has been an increase in the receipts from tourists and emigrants; but there has been a corresponding decline in the receipts from freight rates.

4. - If the exceptional items connected with defence measures had been excluded and also those for off-shore orders, the deficit in convertible currency would have amounted to 133.8 million instead of 122.1 million dollars in the first half of 1953 and to 53.6 million dollars instead of 23.5 million in the first half of 1953. The total deficit in the balance of payments would have stood respectively at 161.5 and 237.1 million dollars. Thus, in the first half of 1953 the total deficit calculated on an annual basis amounted to 323.0 million dollars and in the first half of 1953 it amounted to 474.1 million dollars.

5. - It appears from the figures given above that:

(a) The level of imports during the first half of 1953 has been sustained, while exports have continued to decline. The increase in the invisibles surplus has not entirely offset the greater trade deficit.

(b) The process of geographical redistribution of Italy's foreign trade has continued with increased concentration of imports in the monetary areas associated with EPU, accompanied by a rise of payments deficit relative to those areas.

(c) The improvement in the balance of payments in convertible currencies has been due in part to temporary factors, namely greater receipts from the issue of a military character and larger receipts from invisibles consequent on the fall of black market exchange rates to about the level of official rates.

(d) The impact of the balance of payments deficit on foreign exchange reserves has been greatly eased by the contribution made by a foreign economic aid which, however, practically ceased after July 1, 1953.

6. - The worsening of the situation in the first half of 1953 points to the urgency of introducing measures to re-establish equilibrium in the balance of payments. Such measures might be:

(a) A financial and credit policy aimed at reducing the level of investment and consumption at home so as to reduce import requirements and release a larger volume of commodities for export.

(b) Changes in the exchange rate between the lira and other currencies implying that a greater quantity of domestic goods would have to be offered for the same quantity of foreign goods, and thus that the level of domestic consumption would be reduced.

(c) Export subsidies from the present markets to those which are more apt to offer outlets for additional quantities of Italian exports.

(d) Restriction of imports by the introduction of quotas, possibly by means of an increase in tariffs.

7. - Even though measures for re-establishing equilibrium in the balance of payment are urgently needed, the prevailing conditions are not such as to justify hasty improvisation:

(a) Italy's foreign exchange reserves are still fairly high. According to IFS they were equivalent to $ 913 million on December 31, 1952. After deducting from this figure credit balances expressed in foreign currency but actually payable in lire, we arrive at a figure of $ 892 million. If we consider that the balance of payments deficit financed by drawing on foreign exchange reserves in the first half of 1953 was the 14.5 million, we may infer that the reserves amounted to $ 777.5 million on June 30, 1953. According to IFS, this figure included $ 346 million in gold, as well as a certain amount of U.S. dollars.

(b) The total payments on account of foreign aid still to be made after June 30, 1953, will be $ 148.7 million (difference between total procurement authorisations issued as of that date and payments effected as of that date). It is estimated that receipts on account of off-shore procurements will be about $ 100 million for 1953, and about the same amount for 1954.

(c) The total credit still obtainable from the EPU on June 30, 1953, amounted to $ 321 million (equivalent to $ 123 million of credit available, minus $ 12 million actually utilized up to June 30, 1953). The utilization of this credit must be accompanied by the payment in gold or in dollars of $ 82 million.

8. - As regards the possible solution of the balance of payments problem indicated under (a) in section 6, the following considerations are relevant:

(a) It seems unlikely that it will be possible to reduce public expenditure for invest-
ment purposes. Assuming that the Government intends to follow a policy aimed at reducing unemployment it is more likely that the opposite will happen. Indeed, irrespective of what may be the declared programs of any future Government, it seems unlikely that such a government — whatever its political character — will be able to resist the pressures exerted upon it by the huge mass of unemployed. This is the more so since the number of unemployed registered at labour exchanges is rising (plus 3.5 per cent in March 1953 over 1949), and since the number of unemployed under 21 years of age is increasing sharply (plus 8.8 per cent).

(b) Whatever the declared programs of governments, and whatever attitude they take towards the problem of the unemployed, there is already a body of commitments which no government is likely to revoke and which imply the execution of investment programs having a profound impact on the balance of payments (g). According to a careful survey carried out by the SVIMEZ, every $ 100 spent

(2) The figures published by a 'International Financial Bulletin' (August 1953) show that the total amount of Italian reserve is held abroad amounted on 1 December 1952 to 1,047 mil-

lion dollars and to 326.6 million dollars. If we exclude from the figures these credits expressed in foreign currency but which can be settled in Italian currency (and therefore not to be included in exchange reserves), the above figures would stand respectively at 461 million and 357 million dollars, then showing a decline of 4 million dollars, a figure that coincides with that mentioned in the text.

(g) See the article quoted in note (3), p. 251.
in investment by the *Casa del Mezzogiorno* gives rise to expenditures of $49 on imports from abroad. From an economic point of view, the highest degree of elasticity would be that of military expenditures.

(c) Even assuming that a government succeeded in appreciably reducing public expenditures, it seems certain that the reduction would not be allowed to affect the level of investments. Rather it would seem that the purpose of such a policy would be to balance public investments by larger private investments, which, from the balance of payments point of view, would have the same consequences. Lastly, one should keep in mind the current pressure for wage increases. The success already achieved in more than one labour sector, and not unlikely to be repeated in other sectors, will exert further pressure on prices of consumers' goods unless this pressure is offset by larger supplies of these goods and hence by larger imports from abroad.

9. — Concerning the solution suggested under (b) in section 6, we should note that:

(a) Changes in the lira exchange rate would result in an improvement of the balance of payments position only on the following conditions:

(i) that the higher cost of raw material and food imports is not reflected in corresponding increases in domestic prices, a condition which is unlikely to be satisfied in the present Italian situation;

(ii) that the increase in the export volume is sufficiently large to raise the total receipts in terms of foreign exchange, a condition which also seems unlikely to be fulfilled, given the high elasticity of demand for Italian goods on international markets, and also the insurmountable obstacle represented by the quantitative import restrictions imposed by other countries.

10. — If the considerations set out in the preceding section are correct, it follows that forces are likely to develop in the domestic market tending to increase imports rather than to reduce them. It would then seem that we should do better to seek a solution that will permit imports to be maintained at the present level or increased; this is in order to be in line with a policy aimed at expanding investments and increasing consumption. The search for such a solution must necessarily be made within the framework of international situations which it is not in the power of Italy to control.

### Table II

<table>
<thead>
<tr>
<th>United Kingdom</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>277</td>
<td>282</td>
<td>285</td>
</tr>
<tr>
<td>Exports</td>
<td>267</td>
<td>268</td>
<td>269</td>
</tr>
</tbody>
</table>

### Table III

<table>
<thead>
<tr>
<th>United Kingdom</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>267</td>
<td>282</td>
<td>285</td>
</tr>
<tr>
<td>Exports</td>
<td>277</td>
<td>282</td>
<td>285</td>
</tr>
</tbody>
</table>

11. — The steady increase in the deficit in Italy's balance of payments with EPU countries demands special attention. In this context it is appropriate to examine:

(a) the general policy followed by the U.K. and other members of the sterling area aiming at a better balance of payments position for that area as a whole, and the impact of this policy on Italy's exports;

(b) the present position of Germany in the EPU;

(c) the position of France.

12. — The policy followed by the U.K. and by the other members of the sterling area has had as its chief objective the attainment of a balance of payments surplus, accompanied by a parallel increase in foreign exchange reserves. As is known, the increase in reserves actually took place as from the second half of 1952.

The surplus in the balance of payments of the sterling area has been obtained through a number of measures of which the major consequence has been not so much to increase exports from the countries in the area as to reduce imports by them (see Table II).

The decline of imports by sterling area countries has resulted in a very considerable reduction in exports by Italy to these countries, as is shown by the figures in Table III.

### Table IV

<table>
<thead>
<tr>
<th>Italy's position in European Payments Union (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month</td>
</tr>
<tr>
<td>Jan-51</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>Debit</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>Jan-51</td>
</tr>
</tbody>
</table>

Note: Monthly positions as well as bilateral positions vis-à-vis U.K. are given net of amortization of Italy's holding reserves in sterling.

13. — From the figures given in section 12, it appears that Italy's debtor position within the EPU is heavily influenced by her debtor position vis-à-vis the sterling area. Concerning the possibility of reducing Italy's debtor position vis-à-vis the sterling area, the following factors are relevant:

(a) As regards Italian exports which have been hit by quantitative restrictions the removal of these restrictions should result in some increase in those exports.

(b) As regards Italian exports which have not been or are not the subject of restrictions, but which have nonetheless declined to a large extent, it is more difficult to foresee possibilities of an increase.

In the light of the available information, it seems that the removal of some restrictions by the U.K. and by other countries of the sterling area has in fact led to an increase in Italian exports, but not to a sufficient increase to restore the old situation. The fall in Italian exports seems to be more largely attributable to the effect which the stricter financial policy pursued by the sterling area has had in sharply reducing the demand for goods imported from
The plan would involve the obligation of removing these restrictions. The consequences would be a merging of the various monetary areas in one single area, thereby causing a further sharpening of competition and accordingly greater export difficulties for the less competitive countries.

15. — Our considerations so far lead us to the following conclusions:

(a) It appears unlikely that, even if the U.K. and other countries of the sterling area should completely remove quantitative restrictions, Italian exports can recover to a level sufficient to restore equilibrium in Italy's balance of payments.

(b) The low level of Italian exports towards the sterling area seems to be due to a diminished competitiveness of these exports, and a further increase in commercial competition within the sterling area would appear probable.

(c) The fact that Italy's transactions with the sterling area bulk so large in the total of her transactions settled through the EPU raises doubts as to the possibility of eliminating her present deficit with the UPU.

16. — Another EPU country which has steadily improved her international position is Germany. The improvement in her position differs from that in the position of the U.K. inasmuch as it has been attained by an increase in exports which has more than offset the increase in imports (see Table V). Germany's improved international position is reflected in the progressive liberalisation of her imports (namely, from 95.8 per cent in March 1952 to 90.1 per cent in April 1953).

The expansion of the internal German market has offered supplementary outlets to Italy's exports. On the other hand, the increasing competition now exerted by German products on third markets, and Germany's vigorous policy of aiding exports, are among the factors which have hindered the capturing of overseas markets by Italian goods.

17. — The French position in the EPU has been characterised by a series of debtor positions. The total cumulative position from July 1959 through June 1953 was – $853 million. The settlement of this position was effected to the extent of $419.2 million by payments in gold; $208 million was covered by the use of credit facilities. $211.2 million outside the quota was settled in gold; out of this $211 million, $89 million was received in the form of special resources granted by the U.S. In these circumstances, France decreed the total suspension of her import liberalisation.

The effect of this measure on Italian exports was to eliminate the surplus which Italy normally had towards France.

It is impossible to foresee how long it will be before France is in a position to restore her import liberalisation measures. Certainly she cannot take this step before she has put her domestic financial position in order and the speed with which she can do this depends on political conditions. In any case it is not difficult to foresee that whilst these restrictions are maintained it will be almost impossible for Italy to achieve the surpluses towards France which in the past had helped her to improve her overall position within the EPU.

18. — It seems to follow that:

(a) In all probability the tendency for Italy to be in debt towards the monetary area associated with the EPU will persist in the future, especially if the process of shifting imports from the dollar area to the EPU area continues.

(b) The continuation of such a situation would require Italy to create a surplus position in U.S. dollars with which to offset her deficit position in European currencies.

19. — In the first half of 1952, Italy's deficit in dollars and other convertible currencies, calculated exclusive of military items and economic aid, was $133.2 million, while the deficit calculated in the same way in the first half of 1953 was $63.6 million. Taking into account military items and economic aid, the balance of payments in dollars and other convertible currencies showed a deficit of $23 million in the first half of 1952, and a surplus of $59.3 million in the same period in 1953.

Even including receipts from off-shore procurements which, as indicated above, are estimated at $100 million for 1953 and about the same for 1954 — it seems impossible that there will be a dollar surplus large enough to offset the deficit towards the EPU. As already mentioned, this deficit amounted to $349 million in the first half of 1952, and to $157 million in the first half of 1953.

20. — In conclusion, it appears that if imports are kept at the present level, and even more so if they continue to increase in proportion to the expansion of domestic investment, and finally if the present geographical distribution of imports continues, it is improbable that exports can be increased sufficiently to restore equilibrium in the balance of payments. It may be added that it would be unwise to seek a final equilibrium in the balance of payments which is dependent on the continuation of certain uncertain factors of off-shore procurements. It follows, therefore, that the only possible alternatives are: to change the geographical distribution of imports, shifting them towards the areas where Italian exports have the greatest possibilities of finding markets; or to re-introduce quantitative restrictions on imports.
Imports of cereals could be entirely shifted from the monetary areas of the first group to those of the second. A part of coal imports could also be shifted in the same way. This would involve the reconsideration of commercial relations with all other countries, including those of Eastern Europe. Following the example of other countries, petrol imports could be made subject to the condition that petrol companies purchased more in Italy. Some of the wool and cotton imports could also be shifted. Finally, it should be remembered that Italy is the only country amongst those with balance of payments difficulties that does not encourage the use of artificial textile fibres for the domestic market.

The objection to measures such as those described above is that they would have the effect of forcing Italy to buy her imported commodities at high prices.

The answer to this objection is that:

(a) It is true that the prices of imports coming from monetary areas where it is easier for Italy to place her exports are higher than those for imports coming from other areas. It is however also true that prices of Italian exports are higher in those areas, and therefore the terms of trade with those areas should not differ from those that would result if Italy succeeded in lowering her prices so as to make her exports more competitive.

(b) If, however, for various reasons Italy should not be able to make her prices more competitive, and therefore to sell more in the monetary areas from which her supplies now come, and the alternative outlined in (a) should not be adopted, the only solution would be that of restricting imports, thus provoking price increases and monetopolistic profits.

22. In harmony with the policy of changing the sources of imports, and in support of it, other measures which are urgently needed concern medium-term export credit and export credit insurance. The need for such measures is the greater in view of the increased importance of equipment goods in foreign trade. It is these goods which have largely been responsible for the expansion of exports from Western Europe generally in this post-war period. Exports of equipment goods from Europe in 1951 showed an increase of 1.9 per cent compared with the 1948 level. British exports had increased three times since pre-war; French exports four times; and Italian exports twice and a half times.

In 1952, exports from Western Germany had increased 33 per cent over 1951, those from the U.K. by 7 per cent, those from France by 9 per cent, and those from Italy by 7 per cent. During the first few months of 1953, exports of these goods declined as compared with the same period in 1952 with the sole exception of German exports which showed a further increase of 10 per cent.

In most European countries exports of equipment goods are treated as granting to the importing countries of large medium-term credits. In this field Germany leads with the Export Credit Agency (A.K.A.G.), which during its first fiscal year (closed on March 31, 1953) had refinanced export credits to the extent of DM 254 million. Industries producing equipment goods had received the largest share of these credits; the engineering industry DM 200 million; the automobile industry DM 164 million; and the electrical equipment industry DM 136 million. Credits for exports to those monetary areas to which Italy should make the greatest effort to expand exports if she intends to reestablish equilibrium in her balance of payments.

Features of the Present Italian Customs Tariff

By CARLO ZACCAGIA

I - Reasons for the Customs Reform.

1. — Italy emerged from the second world war with the old 1931 tariff. Under this tariff the duties were specific (being levied according to the weight of the goods, the number of articles, or their cubic content) and, following the heavy increase in prices, had lost their protective effect (1).

This tariff was the result of studies which began as early as 1923, and were completed in 1935. It was finally put into force in 1932 (2), subject to certain evaluation coefficients designed to take account of the changes which had occurred since 1924 in the general level and structure of prices of goods having an international market; (3) and, in fact out of date before the second world war (4). When the lira was first officially devalued in December, 1927 (5), the duties, which were previously expressed in gold lire, were converted to a paper lira basis (6). The method used was to multiply them by a coefficient (3.05) equivalent to the proportion in which the gold content of the lira was reduced (6).

Meanwhile there had begun the gradual abandonment of the liberal tendencies which had been followed until then by the Fascist regime in its commercial policy. The duties on many items were by degrees made more severe; and in Italy, as in other countries, many of them reached record levels during the great depression of 1930-33 (5). In 1935 a special ed elenore charge called a «licenza fisica» (diritto di licenza) was added to the specific duties (8).

The second devaluation of the lira (6) took place in 1936. This time, although the gold content of the currency was further reduced, no new coefficient was applied to the duties (10).

It was feared that the world market situation might seriously affect the internal price structure, and physical controls and direct regulation of foreign trade were already in full use. These considerations made the Government decide by the Monetary Law No. 798 of 21st August, 1936, which made 100 lire equal to 70.9519 grams of fine gold. The 1935 devaluation changed the gold content of the lira so that one lira became equal to 130.7391 grams of fine gold, the coefficient of reduction being 3.58. At the same time it was provided that Customs duties should be collected in paper lire, subject to a coefficient of 3.35 to the duties defined in the tariff which were to be multiplied. In this way the tariff remained linked to the old price in terms of gold.

For example the duty on grains, which was reintroduced in 1925, had reached a level of 1.42 lire per cent by 1933 (see G. De Blasi, Debiti quantitativi della politica stanziaria italiana, in Economia Internazionale, 3 February 1936, p. 175). In 1931, the Royal Decree Law No. 1798 of 16th September in that year introduced an ad valorem supplementary of 1.59 per cent or to per cent, according to the quantity of goods imported, which however did not apply to goods where the duties were governed by international tariff conventions. This supplementary duty was abolished five years later in October, 1936, when the lira was devalued for the second time.

This was a special additional charge, being fixed at the rate of a 2 per cent on all goods imported. It was said to be justified as representing repayment of the administrative costs entailed in Customs formalities. It was introduced by the Royal Decree Law of 27th May, 1937.

The coefficient of devaluation of the lira was the same 3.65. The effect of devaluation was on a direct basis from 130.7391 grams to 5.6799 grams per 100 lire.