(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 monopolistic 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 129 per cent compared with the 1938 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 linked to the 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 654 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 re-establish equilibrium in her balance of payments.

Features of the Present Italian Customs Tariff

by CARLO ZACCIA

I - Reasons for the Customs Reform.

1. Italy emerged from the second world war with the old 1932 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 1929, and were completed in 1937. It was finally put into force in 1932 (2), subject to certain re-evaluation coefficients designed to take account of the changes which had occurred since 1929 in the general level and structure of prices of goods having an international market (3). When the lira was first officially devalued in December, 1927 (4) the duties, which were previously expressed in gold lire, were converted to a paper lira basis (5). The method used was to multiply them by a coefficient (3.67) equivalent to the proportion in which the gold content of the lira was reduced (6).

(1) When Italy was unified in 1861, the uniform system of Customs duties was extended to the whole country. This was based on ad valorem duties. They were set up to a maximum of 10 per cent, but their average incidence was estimated in 1861 to be around 5.50 per cent. The system was in fact highly liberal in incidence. Towards the same time we know that the average rate of duty under this tariff, which was based on specific duties, was 6.50 per cent. (See M. Bacchi, Giuseppe e problema della politica fiscale, in: Economia Internazionale, November-December, 1952.


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 1929-32 (3). In 1935 a special ad valorem charge called a «licence fee» (diritto di licenza) was added to the specific duties (4).

The second devaluation of the lira (5) took place in 1936. This time, although the gold content of the currency was further reduced, no new coefficient was applied to the duties (6).

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 demand the Ministry of Finance Law No. 118 of 21st August, 1936, which made 100 lire equal to 79.33 grams of fine gold. The 1936 devaluation changed the gold content of the lira so that one lire became equal to 79.33 grams of fine gold, the coefficient of reduction being 3.67. At the same time it was provided that Customs duties should be collected in paper lire, subject to a coefficient of 3.67 by which the duties levied in the tariff were to be multiplied. In this way the tariff remained linked to the old price in terms of gold.

(3) For example, the duty on grains, which was introduced in 1929, had reached a level of 144 lire per cent by 1929 (see G. De Mac, Debiti quantitativi della politica fiscale italiana, in: Economia Internazionale, 1939, 1940.


(8) See the Ministerial Resolution of 6th of June, 1951. (9) See the Ministerial Resolution of 6th of June, 1951.

(0) See the Ministerial Resolution of 6th of June, 1951.
decide to leave the tariff as it was (11). The practical result was automatically to lower the level of the duties. This tendency was accentuated by the many tariff concessions allowed to various countries; and later by the progressive depreciation of the lira.

The war of course aggravated this situation still further. Rough calculations show that by 1917 the far-reaching depreciation of the currency and the heavy rise in the prices of imported goods had on a broad average reduced the incidence of the tariff to 1 per cent. Thus its protective value was nil, and it produced no revenue worth mentioning.

In August, 1917 (12) the Government tried to remedy matters by raising to 10 per cent the licence fee which had been introduced in 1915, and had already been raised to 5 per cent in April, 1913 (13). This certainly did something to stop the loss of Customs revenue due to currency depreciation. But it caused general hardship and led to the fact that the fee was applied without discrimination to all imported goods, whether they were raw materials, semi-finished or finished products; and it caused the Government and the Customs officer to create great difficulties for Italian producers who mainly depend on supplies of raw materials and semi-finished goods from abroad.

2. — The drawbacks of the new state of affairs — the fact that the tariff was ineffective and that the licence fee was charged indiscriminately at a uniform rate all round — seemed unimportant in the first years after the war, when physical controls of all kinds provided «protection», and sellers’ markets prevailed. However, as soon as a state was made with abolishing controls and liberalizing trade, increasing controls were made for the introduction of an up-to-date and effective Customs tariff which would protect Italian industries and promote their power to compete, and which should be the same time serve as a bargaining instrument in talks on tariffs with other countries.

It will be remembered that Italy took part only as an observer in the first GATT Tariff Conference held at Geneva (from April to August 1917). But at the Anency Conference, to which Italy was invited in order that she might become a member of the GATT, it was essential that she should have a new tariff (14), abolishing the ad valorem licence fee forbidden by definite international agreements (15), and above all taking into account the changed economic conditions underlying international trade, as well as the new techniques.

One course would have been simply to adjust the specific duties in the 1921 tariff to the new value of the currency. In fact, the first plans studied were on those lines. Among the practical difficulties encountered, however, one was virtually insurmountable: this was that the 1921 tariff was obsolete in the technical sense. Its classification of goods by categories had been worked out between 1913 and 1917, and later touched up here and there without, however, any overall revision. The technical progress in production made during the following years had left it badly out of date. For that reason it was found better to recast the tariff completely; and in addition there were strong grounds for changing back from specific to ad valorem duties.

II - The new «General» Tariff.

3. — The work of drafting the new tariff began in the Government departments at the end of 1917. In 1920 the Government presented to Parliament a bill authorising it to decree the new tariff with the assistance of a Special Parliamentary Commission (16). This new act gave the Government the freedom of action which it desired, and made it possible fully to work out the new tariff, which came into force on 12th July, 1920 (17) by virtue of Presidential Decree No. 442 of 7th July, 1920.

Meanwhile the 10 per cent licence fee had been abolished. Its place was taken by a «charge for administrative services» at the rate of 0.95 per cent ad valorem on the goods imported (17). Thereby Italy completely conformed to the international agreements on the subject.

We shall refer to this tariff, as embodied in Decree No. 442 of 7th July, 1919, as the «General Tariff». However, by the time it came into force on 12th July it had already been largely emancipated by a number of modifications and qualifications. These were increased during the next few years. As a result of this, there has grown up beside the «general tariff» — which is almost entirely theoretical — the so-called «working tariff», i.e. the one containing the duties actually levied. It is to the «working tariff» which differed greatly from the general tariff, that we must refer in order to discuss the level of Customs duties in Italy. We shall do this in Section III of the present article. First however we must describe the main features of the «General Tariff», even though it is more like a theoretical ceiling than a real tariff.

4. — The new «General Tariff» differs from that of 1921 both in its classification of goods and in the criteria for applying duties. Its nomenclature of goods follows on the whole the schemes worked out by the Brussels Study Group for the European Customs Union. It divides the goods into 21 sections, which are further divided into 38 chapters and 1,367 items. Many of these in turn comprise sub-items, numbering altogether 5,437.

As to the charging of duties the chief difference from the 1921 tariff is that these are now ad valorem instead of specific. The uncer
tainty of the situation, coupled with the experience of inflation during and after the war, left virtually no choice but to apply the ad valorem method, even though it has some drawbacks. For instance, it offers more chances of defrauding the revenue than specific duties do; and when there is inflationary pressure it may become a further source of inflation, because the duty on goods will rise proportionally when their price rises, thereby accentuating the movement. That in fact is just what happened in the summer of 1929 when the new tariff was brought in; and this was one of the reasons why it was decided to modify the general tariff, so that supplies could be more easily obtained from abroad, with import prices rising less.

There are only 44 items in the new tariff which are subject to specific duties as well as to the ad valorem duties; and there are no more than 20 items, under the heads of tobacco and moving picture films, for which the duties are purely specific.

5. — It is difficult — and would perhaps be useless — to ascertain the incidence of the «General Tariff» and the following modifications down to World War II. According to the experts, the pre-war general tariff had reached an average level not distant from the level of the 1910 general tariff, although some variations from one section to another. For the 1920 general tariff an average incidence of 24 per cent has been proposed, but this figure, being the result of a simple arithmetical mean, has a relative significance and can be only taken as a rough approximation (18).

Anyway there can be no doubt that the two general tariffs (1918 and 1920) bring the protection up to a high level. But the pre-war general tariff had already been lowered by a series of international agreements. This had led to a working tariff whose level was estimated in 1920 around 15-35 per cent if goods exempt from duty are included, and 19.24 per cent if they are not. If allowance is further made for the «licence fee» which in 1920 was 3 per cent (but has now been abolished), the two figures rise to 18.25 and 22.22 per cent respectively (19).

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(11) There was only some exclusion of the duties on goods of general consumption under Royal Decree Law No. 747 of 5th October, 1916, with one or two adjustments later in 1920 and 1921.
(12) Royal Decree Law No. 86 of 12th August, 1914. See also footnote 8 on page 199.
(13) Royal Decree Law No. 403 of 5th April, 1915.
(14) In actual fact it was the draft of the new tariff which Italy presented in April 1917.
(15) As will be remembered, the Havana Charter and GATT forbid the keeping in force of excessive charges which amount to more than pure reimbursement of administrative expenses.
(16) The bill was presented to Parliament on 20th June, 1919, while the Anency Conference was proceeding, and was approved on the following 28th December as Law No. 452 of that date.
(17) The method of a Special Commission is somewhat unusual in the history of Italian legislation. It was resorted necessary by the need to bring the new Tariff into force quickly so that it should coincide with the coming into force of the duties agreed at Anency. These latter came into force on 1st July, 1919.
(18) See E. Cusanno, Le nuove tari in degiog, in Rivista, No. 4, for 1923, page 345.
Since Italy lacks natural resources, it is clearly essential to provide our manufacturing industries with raw materials at the lowest possible cost. A difficult problem has however arisen, as will be seen in Section IV, in regard to iron and steel products.

Where the duties reach high levels is in the case of finished goods. This is one manifestation of the general state of affairs which makes the production costs in Italian industry high, and which arises from a number of factors, not all of which are internal in character. Thus the shortage of raw materials often handicaps the Italian producer as compared with his foreign competitors who are better supplied (enjoying the benefits of double pricing systems, lower transport costs, etc.). Besides this the Italian home market is poor, so that mass production and rationalisation of industry are more difficult; and, finally, her industrial system is rigid and her labour immobile, largely because of the chronic excess of workers (24).

These ratios between the major economic branches have not undergone appreciable changes in the 1955 tariff. This was indeed bound to be so. Variations could only be introduced by stages and to a limited extent, as the different degree of protection accorded to the different economic branches reflects some basic features of the Italian productive system which hold good to-day as in pre-war years.

III - The ‘Working Tariff’ and its Development from 1950 to 1953.

6. As has already been indicated, the level of the present ‘general tariff’ may be regarded as being roughly the same as the ‘general tariff’ of before the war, and, if it were applied, it would undoubtedly place Italy among the relatively high tariff countries of Western Europe. But the level of the present ‘working tariff’, comprising the duties which are in fact applied, is much lower than that of 1938, and much lower than the present ‘general tariff’. This may be seen from Table I, which shows, for the most important

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The relinquishment of the pre-war policy of internal slavery has allowed of more or less substantial reductions also for the food products group, which, with the single exception of "milk and its products", extend to all items; in the case of live animals the duty has been reduced from 25.46 to 16 per cent; in that of meats from 31 to 18 per cent; for fish products from 25.35 to 18 per cent; for oil seeds and oil fruits from 26.33 per cent to 8-10 per cent; for edible oils and fats from 50 to 20 per cent. The duties on coffee, tea and pepper — levied for revenue purposes — now stand at 115 per cent as against 115, 299 and 243 per cent respectively, in the pre-war period. The duty on sugar, even though still very high (42), has been halved; from 166 it has been brought down to 94 per cent.

In the case of textile products, the direction of the movement in the rates of duty between the two periods is not uniform. For one group of products there have undoubtedly been marked reductions as in the case of raw flax in which the rate of duty has fallen from 15-50 to 5 per cent; raw cotton from 28-72 to 6 per cent; linen yarns from 7-80 to 5-23 per cent; thrown cotton from 5-45 to 13-16 per cent; rayon from 35-44 to 16 per cent; cotton fabrics from 14-40 to 13-18 per cent; rayon fabrics from 17-50 to 16 per cent. For another group of products the duties have remained practically unchanged; these are jute yarns, linen fabrics, jute fabrics, silk fabrics. For a third group there have been increases of a few points: thus the rate of duty has risen from 22-16 to 18 per cent for woolen fabrics; from 6-10 to 11 per cent for woollen fabrics; from 13 to 13-16 per cent for cotton yarns. In the case of drawn silk and jute, which were duty free before the war, a protective duty of 13 and 4 per cent is now levied respectively.

In the case of the engineering products the movement also differs from one product to another, but in this case the upward adjustments have outnumbered the downward ones. These we note a rise in the case of tools (from 1-24 to 1-34) and of alternating steam engines (from 1-37 to 1-7), while for rotary steam engines there has been a decrease from 1-57 to 1-37.

The value of imports with Customs revenues over a series of years between 1938 and 1953. This table shows that the ratio between Customs revenues and the value of imports fell from 13.8 per cent in 1938 to 6.5 per cent in 1952. The method of measuring the level of the tariff used in Table II (the «weighted average» method) results in a difference between Italian and foreign duties.

(4) The rates for the two products are the same as for the «weighted average» method.

(5) Motor-cars are also protected by a 45 per cent ad valorem duty. The last car models, however, show a marked decentralization process towards the expansion of Italian and foreign markets.
method) is admittedly in principle open to serious objections, especially since the higher the duty on any given commodity, the lower the value of imports of that commodity will usually be, and the lower also, therefore, its "weighting" in the calculation of the average. In the particular case of Italy however the "weighted average" has some significance as a measure, in as much as the decline in the effective tariff rates has not only been very marked but has also been accompanied by an unprecedented expansion in imports of all categories of goods (26). In real terms indeed the value of 1952 imports was more than twice the value of 1938 imports.

The present low level of the effective rates of duty is due to the alleviations which, as previously mentioned, the Government applied from 1950 onwards in reduction of the "general tariff", thereby producing the "working tariff". In reality the "general tariff" has been regarded as a "ceiling" to be used in bargaining, and to be applied only in the last resort. The effective duties could rise to equality with those of the "general tariff" or could remain below them: this was to depend on circumstances such as the Customs policy of the United States and the British Commonwealth, the results of international agreements and conferences, fluctuations in the level of business, and so forth. The "rules of first application" laid down what criteria were to be followed in determining this "managed" application of the tariff; and they expressly referred to the state of markets, to the supply situation, and to the needs for consumption and for the equipment of the country's economic system.

In the summer of 1950, in particular, a number of considerations made it desirable to have the duties at a moderate level. The chief need at that time was to counteract the inflationary pressure let loose by the Korean war; and that pressure would have been made stronger if the "general tariff" had been fully applied. Moreover, important negotiations on Customs policy were in prospect, including the Torquay Conference and talks with a view to bilateral agreements with France and Switzerland. There would thus have been no point in applying the high rates of the "general tariff", only to return a few months later to the moderate rates set forth in the agreement.

The following paragraph lists the main alleviations which were allowed.

7. (a) Mention must first be made of the "temporary rules of first application", which came into force on 15th July, 1950 at the same time as the new "general tariff" (27). Apart from certain limited exceptions these rules laid down that, where the new duties were greater than 11 per cent. ad valorem, the duty applied would be the mean between 11 per cent. and the duty in the new "general tariff". The higher the new duty, the greater the cut. This was called the "Vanoni formula" after the Minister who proposed it (28). The basic idea was that from 1949 onwards the general average of the specific duties under the 1931 tariff should amount to not more than 1.5 per cent. ad valorem: and this, added to the 10 per cent. licence fee, made a total of 11 per cent.

These "temporary rules" were meant to remain in force until 15th July, 1951. In fact their validity was extended for periods of six months at a time, subject to few amendments which need not be described in detail (29). At the present time (Autumn 1952) they are still in force. If they are not prolonged they will lapse at the end of December, 1953 for most products, and in July, 1954 for the remaining items (30).

(b) Apart from the reductions under the Vanoni formula, the Italian authorities also unilaterally reduced the duties on a large number of goods of special importance in the Italian economy.

(c) In addition there were the reductions under international agreements. At present the agreements made by Italy inside and outside GATT cover much the greatest part of her imports. The reductions allowed have been large. Those made at Torquay, for instance, range around an arithmetic average of 26 per cent (31).

(d) Besides all this, the Government decided in November, 1951, to reduce virtually all Customs duties by a further 10 per cent. (32). This was one of the steps taken in the fields of tariff, foreign exchange, and credit policy to help reduce Italy's creditor position within the E.P.U. by expanding imports. Thus, in the same month the liberalisation of our imports was pushed up to 99 per cent (33). The 10 per cent. reduction of duties was called "exceptional", and was to have lapsed on 31st March, 1952; but it is in fact prolonged and is still in force.

8. The Italian tariff wall has, however, also been breached in other ways than those already mentioned. Exemptions and reductions have been given for a variety of purposes (oil prospecting, shipbuilding, regional development, etc.), and although their scope cannot be described in precise quantitative terms owing to the lack of adequate statistics, it is the opinion of experts which have commented on the whole that it has been far from negligible in the concrete case of goods of special importance to the Italian economy.

9. — The present tariff position, resulting from the measures described above — but leaving out of account the alleviations described in par. 8, not easy to be listed — may be summarised in broad outline as follows:

(a) A large fraction of the items in the tariff schedule above 2,500 liras, are subject to the transitional rules. As was said above these fix the duties half-way between 11 per cent. representing the old tariff of specific duties

(b) In 1956 the Government set up the A.G.L.P. (Italian General Petroleum Corporations) and began to take an active part in oil prospecting. See the article by A.V.B., "Italian Oil Industry in Italy", in No. 25 (1955) of this Review, pp. 117 ff.
method) is admitted in principle open to serious objections, especially since the higher the duty on any given commodity, the lower the value of imports of that commodity will usually be, and the lower also, therefore, its "weighting" in the calculation of the average. In the particular case of Italy however the "weighted average" has some significance as a measure, in as much as the decline in the effective tariff rates has not only very markedly but has also been accompanied by an unprecedented expansion in imports of all categories of goods (20). In real terms indeed the value of 1955 imports was more than twice the value of 1938 imports.

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In the summer of 1950, in particular, a number of considerations made it desirable to have the duties at a moderate level. The chief need at that time was to counteract the inflationary pressure let loose by the Korean war; and that pressure would have been made stronger if the "general tariff" had been fully applied. Moreover, important negotiations on Customs policy were in prospect, including the Torquay Conference and talks with a view to bilateral agreements with France and Switzerland. There would thus have been no point in applying the high rates of the "general tariff", only to return a few months later to the moderate rates set forth in the agreements.

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These "temporary rules" were meant to remain in force until 15th July, 1951. In fact their validity was extended for periods of six months at a time, subject to a few amendments which need not be described in detail (29). At the present time (Autumn 1953) they are still in force. If they are not prolonged they will lapse at the end of December, 1953 for most products, and in July, 1954 for the remaining items (30).

(b) Apart from the reductions under the Vanoni formula, the Italian authorities also unilaterally reduced the duties on a large number of goods of special importance in the Italian economy.

(c) In addition there were the reductions under international agreements. At present the agreements made by Italy inside and outside GATT cover much the greater part of her imports. The reductions allowed have been large. Those made at Torquay, for instance, ranged around an arithmetic average of 26 per cent (31).

(d) Besides all this, the Government decided in November, 1951 to reduce virtually all Customs duties by a further 10 per cent (32). This was one of the steps taken in the fields of tariff, foreign exchange, and credit policy to help reduce Italy's creditor position within the E.E.C. by expanding imports. Thus, in the same month the liberalisation of our imports was pushed up to 90 per cent (33). The 10 per cent reduction of duties was called "exceptional", and was to have lapsed on 31st March, 1952, but it was in fact prolonged and is still in force.

8. - The Italian tariff wall, however, also breached in other ways than those already mentioned. Exemptions and reductions have been given for a variety of purposes (all prospecting, shipbuilding, regional developments, etc.), and although their scope cannot be described in precise quantitative terms owing to the lack of adequate statistics, it is the opinion of experts that the volume of imports which have come in duty-free in consequence of the whole complex of provisions of this kind has been far from negligible. And indeed the alleviations in question were designed to meet the concrete needs of certain well defined categories of producers or of certain areas and were thus certainly not intended to remain a dead letter. Among the most important of the provisions that are still in force are the following:

(a) Imports of equipment for oil prospecting have been exempt from duty since 1950 (34). This provision has become especially important in this post-war period in view of the development of prospecting and the discovery of new fields of petroleum and natural gas. Thus, for example, the equipment imported for the construction of the Cosenziggare installations benefited from this exemption.

(b) The Saragat Law (35) which contains numerous provisions for facilitating the reconstruction of the Italian mercantile marine prescribes among other things that imports of materials and other things for shipbuilding shall be exempt from duty.

(c) Since before the war imports of equipment destined for the so-called "industrial areas" have been exempt from duty.

(d) Finally, reductions of, or exemptions from duty have been granted in the post-war period for various products imported by national regions (Sicily, Sardinia, Valle d'Aosta, Alto Adige).

9. - The present tariff position, resulting from the measures described above — but leaving out of account the alleviations described in par. 8, not easy to be listed, may be summarized in broad outline as follows:

(a) A large fraction of the items in the tariff, numbering about 2,200 (96), are subject to the transitional rules. As was said above these fix the duties half-way between 11 per cent representing the old tariff of specific duties

(b) In 1950 the Government set up the A.G.I.P. (Italian General Petroleum Corporation) and began to take an active part in the products of the National Gas Industry in Italy, in No. 25 (1953) of this Review, pp. 117 ff.

(c) See O. Parmeggiani, "The Crisis in the Italian Balance of Trade", in No. 24 of this Review, p. 47.
plus the licence fee, and the new general "ad valorem" tariff.

(b) Certain categories of goods, comprising some 500 items, enjoy preferential tariff treatment under special arrangements. These are goods of special importance for supplying the country's markets or for supporting its economy, such as cereals, flour imported by or for account of the Government, and machines for use in farming and industry.

(c) Next there are the duties governed by agreements or other special provisions. These are not subject to the transitional rules, and their level is governed by the terms of conventions such as those of Annecy or Torquay, and of agreements such as those with Switzerland and France.

(d) On about 1,200 further items the duties are governed by agreements, but are applied at rates lower than those agreed.

(e) On a group of commodities mainly of a luxury character, and about 200 in number, the duties in the general tariff are in force.

(f) Finally, most of the duties are subject since 1st November, 1953, to the 10 per cent reduction mentioned above (37).

The general result is that the "temporary" rules for alleviation have not lapsed, but have been maintained and extended (38), thereby producing a "working tariff" at a relatively moderately discriminatory rate.

Admittedly it cannot be said that this "working tariff" has been inspired by the theories of those who regard tariffs as justified only as a means of giving protection to infant industries. Broadly speaking the duties have rather been determined by reference to the different levels of costs as between the Italian producers in the various sectors of the economy and their foreign competitors. In order to "measure" these costs an attempt was made to calculate some rough average of the costs of single enterprises, assuming that this average could be taken as the cost of the "industry" or "branch of farming." That method may perhaps not be approved by economic theorists, who may argue that it is just a convenient way of protecting the marginal and least efficient producers with the highest costs. Against this must be put the facts and considerations that have already been set forth. On the other hand, the heavy increase in Italy's imports in 1952-53, the disquieting growth in the deficit in her balance of trade, and the pressure on her foreign exchange reserves, would seem to show that the new Customs tariff has not insulated industry and farming in Italy from the effects of international competition.

20. — Indeed, since 1950 Italy's international position has seriously deteriorated. In the first number of this Review for 1953 (40) we referred to the crisis in the Italian balance of trade. Elsewhere in the present number of the Review Dr. Carli describes the situation he showed that there are even more disturbing prospects in sight, and he extends the study to include the balance of payments. Here it may suffice to say that in the first nine months of 1953 Italy's position in the E.P.U. further worsened, and she became a debtor country with a net cumulative adverse balance of $49.8 million at the end of September. The overall deficit in the balance of trade has remained about the same at 350,000 million lire for the first seven months of 1953, as against 372,000 million in the corresponding period of 1952.

In face of the deterioration in Italy's international position there has been an increasing sense of the need for action. This has been particularly marked in one example, to doubt the appropriateness of continuing a commercial policy which is generally liberal in character. Indeed up to now Italy's measures for liberalising imports and lowering Customs duties have not been reversed, and the authorities have resisted the pressure of interested groups which urged them to take the opposite course. The authorities have, however, conditioned the hope of finding a solution in terms of more positive action on the part of the other E.P.U. countries towards the abolition of restrictions. In other words Italy, rather than readjusting her own liberalisation quotas and protective system in a definitely restrictive direction, has preferred to try to persuade other countries to come into line, so that the balance may be restored at the highest possible volume of international trade. That incidentally is the course advocated by the O.E.E.C. On the other hand, the re-orientation of Italy's productive system along more rational economic lines cannot be exclusively left to the impact of foreign competition, but has to rely on a closer international cooperation (39).

In face of the continuation of restrictive tendencies in other countries, it is no wonder that authoritative voices have been raised late in Italy to demand more vigorous defence of her interests. Some action is indeed urgently needed to stop the rot. And since the crisis in her balance of trade (and the weakening of her foreign exchange position) has manifested itself in 1953 in the drift of the deficit from the defence area to the E.P.U. area, and since there can be no denying the influence on this development both of liberalisation and of tariff reductions, it is inevitable that the courageous commercial policy which Italy has hitherto followed should become the subject of renewed discussion, and that at least partial readjustments may have to be expected in the near future.

IV. Steel Duties and the European Coal and Steel Community.

11. — Three sections of the Italian Customs tariff have for a long time been the subject of special attention among economists and technical experts. There are the sections comprising the duties on iron, on grain and on sugar, which are regarded as the three corner-stones supporting the whole edifice of our tariff system. The debates were long and keen between the liberal school of Italian economists (Einaudi, Janneconne, Umberto Ricci, etc.) on the one hand and producer groups and Government departments on the other. These discussions gradually died down, however partly because the tariff eventually came to be regarded as a lesser evil by comparison with the jungle of quota restrictions, and controls that had by degrees been introduced.

The problems of grain and of sugar were discussed in an article which was published in this Review in 1950 (35). We shall not go over these questions at great length, since we have not substantially changed since then. It may however be of interest to refer briefly to the problem of the duties applied to iron and steel products.

(37) See G. STEFANI, loc. cit., p. 44 ff.

(38) See also G. STEFANI, loc. cit., p. 57 ff.

(39) STEFANI, loc. cit., pp. 157 ff., this number.

(40) See G. STEFANI, loc. cit., p. 157 ff., of this number.

(41) S. G. STEFANI, loc. cit., p. 57 ff.

(42) STEFANI, loc. cit., pp. 157 ff., of this number.
As is well known, the iron and steel industry in Italy grew up under the umbrella of high Customs protection. It was born late by comparison with the industry not only of Great Britain but also of Germany. It was also at a clear disadvantage because Italy had little or no iron ore and coal, while the poor- ness of the Italian market ruled out mass production, with the lowering of costs which that makes possible. That is why the Italian iron and steel industry needed strong Customs protection to put it on its feet. That protection was in fact given to it by the 1887 tariff. This however at once brought out a problem which was later to become of fundamental importance, namely the effect on the engineering industry of the protection given to the iron and steel industry. For the protection of iron and steel raised the costs in engineering. This problem was already acute before the First World War. Even then many people used to wonder why the engineering industry did not rebel against its fate. At the time when Italy definitely embraced protection in the 1887 tariff the iron and steel industry was much more powerful than the engineering industry, which was then in its infancy and had a structure based largely on craftsmen's workshops. It was in the early years of the twentieth century that engineering forged ahead. Even then, however, it seemed quite unreal to hope to export to international markets against British and German competition. It was in fact thought a great achievement if the foreigner could be kept out of Italian markets. By com- 
parison with that danger the higher prices were a lesser evil. It suited the engineering companies not to attack the steel producers, but to buy high-price steel from the protected Italian steel industry, and then, with the support of the steel producers, to ask the Government for Customs protection so as to preserve at least the Italian market (44).

At a later stage the engineering industry became the largest in Italy, outstripping even textiles. In 1927 it employed 675,000 persons, and the capital invested in it in companies other than craftsmen's shops was put at 70,000 million lire. At that time the textile industry had less than 600,000 workers, with capital of Lire 14,000 million; and the iron and steel industry employed 200,000, with capital amounting to Lire 7,000 million (45).

Since the late war it is precisely in the engineering industry that those concerned have placed their greatest hopes of increasing exports, and of thereby absorbing the unemployed. However, if the engineering industry is to be able to expand and to export, it must be able to acquire its raw materials at competitive international prices. That is the problem which has existed for many years. To resolve it a plan has been initiated which is called the "Stingaglia plan" after the name of its author. The plan provides for radical reequipment and rationalisation in the iron and steel industry; and it is hoped that this will enable the industry for the first time to meet international competition (46). The task is difficult, partly because of the social repercussions which it entails. The difficulty has been recognised by the European Coal and Steel Community, which has agreed that the work of completely eliminating Customs protection as required under the pool arrangements may be spread over five years.

(44) See O. Scamozzi, "The future of the Italian Iron and Steel Industry", in No. 4 of this Review for 1948, p. 306 ff.

At the moment the duties in force in Italy for iron and steel products are those agreed at Annecy, varying between 20 and 25 per cent (see Table I). These rates are subject to a reduction of 10 per cent when applied to countries that are members of the European Coal and Steel Community. This reduction will remain in force until May, 1955; and thereafter it will be increased in successive steps until the protection vis-a-vis the members of the Community is completely eliminated in 1958 (47).

(46) Even those authors, who severely criticise the Government, which they accuse of having maintained "the slave of a protectionist mentality", have been obliged to recognise the courage with which the Government is trying to solve so a solution of this long-standing problem. See for example E. N. R. See, loc. cit.

(47) The economic literature of the period shows that at that time the engineering industry thought almost entirely in terms of the home market, and not of exports. See for example what was said by Giovanni Brea in 1924 in a paper which he read before the Roman Liberal Association, and which is reprinted in the book "Sul Protezionismo delle Industrie", Barsi, Laterza, 1926, p. 57. "... the ironmaster says to the machine builder: "It is all very well that you should have the advantages of getting your iron and steel outside Italy. But if you buy from me instead, and make your goods dearer to produce, I will see that you get the Italian market, because I will see that those duties are put on the cheaper foreign machines."" This same article by Brea contains a whole bibliography. He refers in particular to the paper which was read before Prof. Consens to the Società Italiana per il Progresso delle Scienze a the Milan Congress held in April, 1927. This paper deals with the relations between the iron and steel and engineering industries. Readers may also refer to Noci's article "Le industrie stabilizzate e messe alla " in the book "Il Mediterraneo" published in the book "Panorama of the Italian Industry", Barsi, Laterza, 1926, p. 10 E.

(45) See the Report on Industry by the Economic Commission of the Ministry of the Commissariat Assembly, Volume 1, pp. 214 and 293.