We may expect that this taxation will make at least 20% of the real taxable capacity in the country — partly owing to successful fraud and evasion by taxpayers, partly owing to the failure to change the currency and to force the banks to divulge their secrets, partly due to the imperfections in the register of stocks and shares, and other loopholes offered by the laws. Closing our eyes to these last imperfections in the three property taxes, we can say that they correspond to the main wish of the Italian people, which is to re-establish the balance of the national budget, as a starting point in the fight against inflation. But, as I have already made clear, this could have been achieved with a greater care for the interests of national finance.

(8) In the Review "Critica Economica", n. 6, 1928.

The Italian Tobacco Industry: A State Monopoly

PIETRO COVA

Origin and Structure of the Monopoly.

1. — The present Government Monopoly for the production, sale, and importation of tobacco in Italy is the improvement and development of a system that had shown itself to be the most profitable to the tax Administrations in the several States into which the Peninsula was divided prior to 1861. In 1862 it was set up by decree as the general settlement for the whole of the newly established Kingdom of Italy, and until 1868 it was operated directly by the Government Administration. In 1868, after various experiments had been made to co-ordinate dissimilar activities and varying degrees of progress, the monopoly was assigned to a private chartered company under a special arrangement for the sharing of the profits (Regia cointeresiato). This experiment gave negative results as far as the State was concerned, and in 1884 the Government again took the Monopoly over definitely and placed it under the management of the General Direction of Excise Taxes.

In 1893 a special General Direction of Monopolies (Direzione Generale delle Privative) was set up, which emphasised the industrial character of the business. It was finally transformed, in 1927, into the present Autonomous Administration of Government Monopolies (Amministrazione Autonoma dei Monopoli di Stato), an autonomous company owned by the State to which is entrusted the production and sale of tobacco, salt, and quinine, and the management of the monopoly of cigarette papers, matches and lighters.

2. — The legal figure of the present Autonomous Administration is a peculiar one. It is difficult to find a formula which defines it accurately. It differs from other Government Administrations in some particulars. It has its own budget, separate from that of the Government, a Board of Directors of its own, and a special role for its staff. But its "autonomy" is limited by regulations which are typically bureaucratic; thus its book-keeping, all acts of administration, the status of the staff are subject to rules similar to those which hold good for the working of the other Government Administrations. The composite character of the existing solution is reflected in the position of the administrative organs. The Head of the Autonomous Administration of the Monopoly is "the Minister of Finance assisted by a Board of Directors and helped by a Director General". The Director General is vested with autonomous powers, which, however, vary with the value and the quality of the matters dealt with; those of most importance are assigned to the Board of Directors presided over by the Minister of Finance, or by his deputy, consisting of nine members (the Director General, six high public officials and two private citizens). To become executive, the decisions of the Board must be approved by a separate act of the Minister's who is not bound by them but is legally free to take decisions of an opposite nature. This means that the Board is, substantially, an advisory body and the real power is vested in the Minister. The procedure is a special one, which requires too frequent recourse to Ministerial Decrees and which subjects action to laborious practices and bureaucratic controls. The administration would be excessively slow were it not for a provision which enables the Director General to take
decisions in cases of urgency, which he afterwards reports to the Board. This facilitates the working of the Administration, but it raises other delicate problems of responsibility and jurisdictional complications which tend to make it use a cause of friction. The need is therefore felt of a thorough reform which would free the Administration from the fetters of the usual bureaucratic methods and provide it with an organisation modelled on the more elastically used by industrial and commercial concerns.

3. — The organisation of the tobacco branch of the Monopoly — which at the sales end is the same as that regulating the other minor branches (sulfur, quinine, cigarette papers and tubes, matches) — is as follows:

— 10 Regional Directions (Direzioni Compartmentali) for the cultivation of the tobacco, which watch over the progress and control the production of the plantations and the preparation of the tobacco as a raw material for industry. Production and preparation are carried out by about 1,000 private concessionnaires. The Monopoly also has 15 Agencies (agenzie) through which it attains, as do the concessionnaires, to the cultivation and preparation of the tobacco. These Agencies enable the Administration to secure, through its own direct services, all the data it needs for fixing the prices to be paid to the concessionnaires for the several qualities of tobacco.

— 19 tobacco factories for producing tobacco for smoking (4 others located at Pola, Fiume, Rovigo d'Istria and Zara have now passed, under the peace treaty, to Yugoslavia);

— 22 depots for manufactured tobacco where the output of the factories is centralised, and from which the tobacco is withdrawn by the sales offices and stores;

— 604 offices (managed directly by the Monopoly) and stores (managed by private contractors) for selling tobacco, which they withdraw from the depots and supply to the retailers;

— some 47,000 retail shops (private contractors) for the sale to ultimate consumers;

— 23 zone offices to attend to commercial organisation and administrative supervision.

The Monopoly has on its payroll for the production of its manufactures and for the distribution of the products to the stores, more than 2,500 employees and 38,000 workers — most of whom are assigned to the tobacco branch — and who represent about 8 million days of work per annum, and it gives work indirectly to several tens of thousands of persons engaged in the distribution and retail sale and transport of tobacco. Nor does this take into account all the work arising for the subsidiary industries producing machinery, equipment, paper and cardboard, packing, transport, etc.

Agricultural Production.

4. — In the first stage of the use of tobacco in Italy, when consumption was limited to snuffs, the production of Italian plantations was sufficient, as dark tobaccos, suited for their manufacture, were easily acclimatised in the Peninsula.

But when the habit of smoking became in the ascendant, and the acclimatised tobaccos were found ill-suited or unsuitable, a large import trade with the Americas (United States and Brazil) grew up for dark cigar tobaccos and pipe tobaccos and with the countries of East Europe (Greece, Bulgaria and Turkey) for light and cigarette tobaccos.

If the cost of these imports could be supported, even by a country economically poor, when consumption was of limited volume, they represented a real problem for the Italian balance of trade in the second half of the XIXth century.

The government organisation of the Monopolies showed itself no less capable and enterprising than private initiative in facing this situation. In 1895 it opened the Experiment Station for Tobacco Cultivation at Scalfato (Salerno), the forerunner of a whole series of similar institutions which have since spread all over Europe, for the purpose of making scientific research and practical experiments to solve the difficult problem of acclimatising in Italy the more valued varieties of sub-tropical tobaccos of the Americas and of East Europe, as well as some tropical varieties.

The work of well-known scientists led to two important results: (a) the acclimatisation in Italy of the varieties of tobacco for which the industrial demand was greatest; (b) the creation, as the result of crossing and hybridisation of typical varieties of tobacco suited to the conditions of soil and climate in Italy and possessing characteristic properties substantially very similar to those of the tobaccos of America and East Europe.

This scientific and technical program was carried out first in the experimental stations, and then in the tobacco plantations, over a period which lasted more than a quarter of a century, and it was beginning to meet with the long expected success only a few years after the first world war.

5. — In 1913-14 the area planted to tobacco in Italy was barely 6,811 hectares, with a production of less than 9,000 metric tons. Consequently the volume of imports amounted to no less than 25,000 tons per annum. Altogether, more than 72% of the tobacco then came from abroad, and this percentage had risen during World War I, until it stood at 81% per cent in 1920.

From that year on the new stage in the development of home grown tobacco began, with the results summed up in Table I.

6. — With the development of Italian tobacco plantations, a new and notable export trade grew up, which succeeded in reversing the previous situation as regards weight and in markedly reducing the adverse balance as regards value (see Table II).

7. — The peak production of 1941 was due to the growth of consumption under the stimulus of war, to the exasperation of autarchie policies, to the impossibility for the Monopoly to obtain supplies from overseas, and to the ex-
ports to European countries, unable to secure supplies from their traditional markets in North and in South America, but as the war proceeded an alternative was found. This was due to the lack of labour, the need of using the land for food crops, the absence of the requisites required for the plantations. Lastly, in 1943-44 and 1945, military operations prevented the cultivation of a large part of the area and caused large-scale destruction of buildings and equipment.

But as soon as South-Central Italy was liberated, the Autonomous Administration of the Monopolies set to work energetically to secure the revival of the cultivation of tobacco.

Special subsidies were granted—of as much as 80% of the cost—for the reconstruction of the farm and industrial buildings used for curing and handling the tobacco; the payment of these subsidies was spread over eight years, and was given in the form of a sur-prize paid for the tobacco delivered, thus compelling the farmers to produce the largest quantity possible during the eight years so as not to lose the subsidy. Another subsidy was granted to concess ionsaires who had suffered most severely from the war by majoring the prices paid for their tobacco by as much as 18% of the said price during five years, thus again encouraging production. Moreover, the prices for tobacco were fixed at remunerative levels so as to make its cultivation desirable and enable the planters to overcome the difficulties in securing supplies of the several requisites consequent on the war.

The former Experiment Stations were amalgamated into one single Scientific Experimental Station for Tobacco, endowed with adequate means (1). The new Institute has been able to undertake studies to repair the losses caused by the war-to-the quality of the tobacco, and to secure, by further selection and hybridization, those varieties which had been lost years of research and work to produce and which in the chaotic years of military operations had been lost or had degenerated.

(1) In has been assigned on each kilogram of tobacco produced in Italy 95% of the price, the rest being charged to the consumers.

The progress of the plantations from 1945 to 1947 is shown by Table I. Indeed, in three brief years the problem of quantity has been solved, and of quality is now being solved. As next year the selected seed of all the varieties formerly selected will again be available in the quantities required for renewing the plantations.

The success of this effort should claim attention. The spirit in which the Authorities have faced the problem of securing the revival of production has been practical, efficient, and timely; and it has not allowed itself to be hindered by indulging in anti-economic fancies, clinging to artificial prices which discourage production. In a certain sense, it has practically compelled the planters to cultivate tobacco intensively so as to enable the Monopoly to exploit a source of revenue from which rapid and easy yields can be obtained at a time of unprecedented financial difficulties, aggravated by the disorganisation of the other forms of taxation caused by the war. It is, however, to be regretted that a like uncritical policy has not been adopted when fixing the sale prices to the consumer, prices which, as we shall see, could have been raised to much higher levels so as to secure the highest possible fiscal yields.

Production and Consumption of Manufactured Tobacco.

8. — The consumption of tobacco in Italy has always been a limited one, fluctuating around a minimum per capita of 520 grammes in 1913-14 and in 1933-34, and a maximum of 723 grammes in 1921-22 and 1927-28. The general per capita average for the quinquennium 1935-39 is reckoned at 590 grammes, about half the figure for France, one third of that for Germany, one fourth of that for the United States in the same period. This limited consumption is another indicator of the low standard of living of the Italian people and the low consumption of high quality foods (sugar, meat, fats, etc.) (2).

9. — The Administration of the Monopolies, which ever since 1942 had been able to manufactures with its industrial equipment the whole of the supplies required by consumers, found itself from 1943, when the war was being fought on Italian soil, in a really alarming situation.

At the beginning of 1945, the 23 factories working in full efficiency before the war, one had been razed to the ground, 4 were half wrecked, 8 others had suffered partial losses, one was requisitioned by the allies to be used as a barracks, 4 had come under the control of Yugoslavia. Taken as a whole, 40
per cent of the factory buildings were destroyed, and destruction on a like scale had been suffered by the machinery and equipment.

The stocks of unmanufactured tobacco, which amounted to more than 110,000 m. tons before the war, had been plundered and reduced by 60 per cent (to 45,000 m. tons); a very serious loss when we remember that to produce good quality tobacco one should have on hand stocks amounting to three years production.

Steps were taken to secure tobacco from several foreign countries while awaiting the results of the work started for reviving the cultivation of tobacco in Italy. With this end in view, negotiations were started, sometimes through the agency of third countries, with Turkey, Greece, Bulgaria, Brazil, and the United States, and led to imports under clearing agreements, and to considerable purchases in the United States financed by a 5 million dollar loan granted by the Export-Import Bank. These imports allowed the Monopoly to draw on the stocks it had in hand as from the end of 1945, thus accelerating the output of its manufactured products.

At the same time, the labour force also began working again on the former piece work system, i.e. at the same rate of production as in the pre-war period—a unique case in the industrial record of post-war Italy—and when necessary over-time and night work were resorted to.

This work of material and moral reconstruction, and the resumption of international relations, which coincided with the aforesaid action taken to stimulate the cultivation of tobacco in Italy, resulted in a steadily marked increase in the production of the factories.

From 1,906,516 kilograms per month obtained in August 1945, production was gradually raised to 2,850,571 kgs in September 1947 (corresponding to an annual output of 14,207 tons). An increase of nearly 50% was thus obtained in the course of two years.

In the Spring of 1948, the abolition of the rationing of electric power and the delivery of new machinery will enable the Monopoly to produce more than 3.1 million kilograms per month, equivalent to an annual output of over 37,200 tons and to 800 gr. per head (on the assumption that the Italian population amounts to some 45.5 million inhabitants). In other words, in spite of the complete loss of the 4 factories which have passed over to Yugoslavia, and the enormous losses above mentioned, the Monopoly will be producing 25% more than it sold in 1938-39. When this margin is attained, rationing will be abolished and the free sale of the products will be resumed.

In any case, in the space of two years the volume of manufactured tobaccos placed on the market by the Monopoly has increased 68%, from 17,307 m. tons (1944-45) to 28,220 (1946-47). The ratio has grown contemporaneously from 20 grammes per week at April, 9, 1945 to 29 grammes in November, 19, 1945, to 40 grammes in November, 4, 1946, and 45 in October 1947.

It should be added that the ratio of cigarettes to total output has been steadily growing, rising from 57% in 1944-45 to 59% in 1945-46, and 69% in 1946-47. During the fiscal year 1947-48 the ratio will rise to 75%. The fact that the increase is due to the sales of cigarettes, for which special premises and machinery are required—rather than to that of cigars, made by hand, and pipe tobacco which call for simpler equipment, is another index pointing to the success of the work of reconstruction (3).

I believe that such results, secured under the very difficult conditions existing in post-war Italy, would do honour to any great industry.

(3) The steady rise in the quota of cigarettes, while entailing great changes in the working methods and therefore in the structure of the tobacco business, shows a decided evolution in the taste of the smokers in favor of the more delicate and probable products.

10. — Recovery in the export branch of the business has so far met with very serious difficulties. Apart from the present scarcity of raw materials, the most serious obstacle is found in the impoverished conditions which induce the European countries to forbid imports of non-essentials; moreover, Italy's fundamental market, that of Germany, has been entirely lost.

The Monopoly is however seeking for new markets on which to start sending its products, even if only in small quantities for the present.

It has already been possible to export some of our manufactured tobaccos to the United States, Egypt, Panamá, Argentina, Luxemburg, South-Africa, Belgium, Austria, Switzerland; arrangements with the United States and with Austria are being considered for the export of unmanufactured tobacco. The export of cigars would be particularly desirable as their manufacture requires a lot of labour, but that branch of the business is the one now almost everywhere inexorably hampered by a high protectionist system (4).

Fiscal Yield and Pricing Policy.

11. — A substantial feature of the Monopoly is the revenue it assures to the Government. Under the system in force since 1947, the gross receipts from sales are divided into two parts of which one is assigned to the Autonomous Administration, to meet all the costs of production and sale, and the other to the Government, being a tax on consumption. The respective shares are fixed at the opening of each financial year by the Budget Act. Prior to the war, the Government received 60% and the Administration 20%. In 1944 the ratios were altered to 75% and 75%. Since 1946-47 the Government's share has been raised to 80%.

(4) In this connection we need only mention that a Tunan cigar, sold on the international market by the Monopoly for 2 cts, must pay in the United States a duty of 4 cts. Evidently the Monopoly regime existing in Italy is more liberal than the free regime. Thus, if we were to charge duties similar to those levied in the United States, a packet of 20 American cigarettes would have to be sold by the Monopoly to the Italian consumer at a price of more than 400 lire, i.e. a price one third higher than that now current on the black market.
The revenue from the Monopoly has always been an important item in the total fiscal receipts of the Treasury. In 1931-14 it accounted for 17% of the total, in 1938-39 for 15.8%, in 1939-40 for 15.4%. The tobacco branch alone—responsible for one ninth of the Monopoly's fiscal revenue—contributed in 1938-39 a quota of 13.4% to the total Government fiscal receipts. This very high taxation of tobacco is consistent with the Italian fiscal system which has always had to provide the means for carrying out costly tasks by drawing them from an economy offering but scanty resources and therefore unable to leave a wide margin for non essential consumptions.

In these post-war years, as above stated, the Monopoly has been one of the branches of the fiscal system which has more rapidly recovered its yield capacity, thanks to the reconstruction of the tobacco plantations and of the factories.

In 1945-46 the contribution made by the Monopoly to total revenue receipts rose to 27.50 per cent. During that financial year the "tabacco" branch alone provided the Treasury with nearly one fourth of all fiscal receipts (Table V). The traditional advantage offered by taxation through monopolies, i.e. the greater ease with which it can be "manoeuvred" as compared to other forms of taxation in consumption, was then availed of. This possibility was made use of to a much smaller extent in 1946 when sales prices remained stationary, and so in the financial year 1946-47 the ratio obtained from the Monopoly again approached the pre-war level.

A significant index to the intensity of the effort made by the Monopoly in the first post-war period is also afforded by the rate of increase of its proceeds. In 1945-46 they—together with the taxes on the transfer of property which are affected by special circumstances (5)—were the only ones to exceed by no less than 150% the proceeds obtained in 1938-39; the other taxes were deeply affected by the troubles created by the war and by inflation, and their growth has been particularly slow as compared to that prices (6). In 1946-47 the proceeds of the Monopoly rose over 18 times; but already the fact that sales prices remained fixed while cost were changing made itself felt, and while the rate of increase rose for other groups of taxes that of the yield of the Monopolies fell. Table V and Chart III call attention to this diverse dynamism of the several groups of taxes which, under present abnormal conditions, is far from having found its equilibrium. The chart shows the prompt initial reaction of the Monopoly and the subsequent tendency to stabilise at lower levels than those attained by some other groups of taxes. This aspect of the matter involves questions of fiscal policy claiming some attention.

12. - Undoubtedly the results obtained by the Monopoly are deserving of commendation when we consider the difficulties of all kinds amidst which they were secured. But they could have been more considerable had the energetic action taken in the field of production been matched by an equally energetic price policy. Unfortunately, while the problems of production were faced and settled with a realistic acceptance of the prices ruling on the market, the Government had not the courage to charge consumers the prices called for by the general rise of costs and the huge excess of demand over supply. So, while the cost of materials and services the Monopoly needs followed the more or less inflationary trend, rising in the Spring of 1947 to nearly 52 times the current 1938, the rise in the prices of the manufactured tobacco was excessively slow and tardy. Substantially, the policy followed by the Government, while it allowed the Monopoly to be a realistic buyer, compelled it to be an excessively considerate seller. This "partial attitude" taken by authorities in control, is clearly shown by Table VI and Chart IV. During the whole period since April 1945 the Monopoly has been selling its products at prices markedly below those offered for them by the black market. Price adjustments have been rare; those authorised in May

(5) The proceeds obtained from the so-called "taxes on the transfer of property" have been favoured by the introduction, in 1939-40, of the turnover tax (tassa sulle estrazioni) now the most profitable of all the taxes in the Italian fiscal system.

(6) For the difficulties of these adjustments see C. Costamani, Italian Tax Policy, in this Review, July, 1947, p. 86 and seq.
and December 1945 were insufficient; for no less than 15 months, from January 1946 to March 1947, no variations were authorised, although the demand for tobacco and the general level of prices rose sharply during that period. The difference between official and black market prices—until March 1947 the latter had moved in close correspondence with the general index number for prices—thus amounted to more than 100% for those pro-

<table>
<thead>
<tr>
<th>Date</th>
<th>Sales Prices for Monopoly Products (a)</th>
<th>Black Market Ratio to Official Prices (b)</th>
<th>Wholesale Prices (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1945</td>
<td>1,100</td>
<td>1,200</td>
<td>1,300</td>
</tr>
<tr>
<td>Dec. 1945</td>
<td>1,200</td>
<td>1,300</td>
<td>1,400</td>
</tr>
<tr>
<td>Mar. 1946</td>
<td>1,700</td>
<td>1,800</td>
<td>1,900</td>
</tr>
<tr>
<td>May 1947</td>
<td>2,400</td>
<td>2,600</td>
<td>2,800</td>
</tr>
<tr>
<td>July 1947</td>
<td>3,100</td>
<td>3,300</td>
<td>3,500</td>
</tr>
</tbody>
</table>

(a) Dates of variations in the sales prices of the Monopoly: May 1, 1945; December 1, 1945; March 15, 1947; July 15, 1947.
(b) Approximate average index number.
(c) Approximate average index number of the prices for the cigarettes of the Monopoly most widely sold on the black market in Rome.

The垣 change in the rate of increase of the Monopoly prices has been due to the fact that the Government did not adjust sales' prices more closely to production costs, it has recently had to reduce its share of the sales-proceeds from 75% to 65% so as to allow the Monopoly to cover the growing costs of operation. Subsequently, taxation has been lowered owing to the fact that political considerations have prevailed over financial ones in fixing the sales' prices, and not because of a need arising as a result of deficiencies in the commercial and industrial operation of the Monopoly.

14. The principles guiding the industrial and commercial administration of the Monopoly and the results secured may be illustrated by some comparative references to production costs foreseen in the original estimates for the financial year 1947-48 which balances, with expenditure standing at Lire 35,525,200,000 and receipts standing at a like amount.

As originally estimated production exceeds the pre-war figure by 10% of increase corresponds closely to the general wholesale price index compiled by the Central Institute of Statistics which showed in July 1947 a rise of 53.8 times over that of 1938.

A great deal of expenditure however points to some interesting details illustrating both the serious dislocations caused by inflation in the pre-war position, and some aspects of the administrative weakness exercised by the Monopoly Administration. The coefficients of increase spread out in a very wide fan at the following rates:

- 23.87 times for the purchases of tobacco.
- 12.87 times for the purchase of machinery and auxiliary materials;
- 31.12 times for the distributing and selling services;
- 18.86 times for transports;
- 14.08 times for overhead, i.e. expenditure for the operation of the General Direction, salaries, the upkeep and supervision of buildings, etc.

This item added to the cost for pensions accounted before the war for 28.88% of total expenditure; today it has fallen to 7.47% per cent of the total. This shows that the Administration has eliminated or reduced to the utmost all expenditure not strictly essential for production.

16. I am convinced that the Monopoly Administration would be more efficient if its autonomy were more clearly defined. The present position is an ambiguous compromise under which the Administration is subject to an undue number of controls and bureaucratic interferences and has to observe systems and accept arrangements ill-suited to a typically industrial-commercial enterprise. I do not indeed advocate the return of the Administration to private operation. Personally, I agree with those who consider that in the case of very large-scale undertakings the form of ownership—whether public or private—becomes of little importance; under either system the business may enjoy a like degree of economic efficiency and elasticity, provided the organisation in both cases is similar. Successful examples of publicly-owned Corporations organised on the same lines as great private enterprises are not lacking in Italy. A solution of this kind should be adopted in the case of the Monopoly also. If the Administration of the Monopolies were really autonomous, managed by administrative organs possessing powers of initiative and decision such as those normally assigned to the managing organs of great industrial concerns, if the ministerial and bureaucratic controls and delays were limited to those of supervision and revision, if the
The Italian Tobacco Industry: a State Monopoly

14. I have shown that the Monopoly has now solved the problems related to the production of tobacco so far as quantity is concerned; and it is on the right path for solving the problem of quality and will progress rapidly in this direction so as to reduce in the course of the next few years to the pre-war minimum the sacrifices the consumers are called on to make in this respect.

Two important problems are still however unsolved and they are partly connected with the atmosphere of inflation. I have already referred to them. They are (a) the revision of the "autonomous" position of the Monopoly; and (b) the principles guiding the Monopoly’s market and therefore also its fiscal policy.

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rules and regulations applied to the staff were recast so as to allow of greater mobility and elasticity in assigning positions and fixing salaries, the Administration would acquire a flexibility which would allow of more rapid and more timely action, qualities more than ever necessary in times like these when prices and costs are so unsettled and when the business has started on a plan of modernisation and reequipping. The result would be higher and better production and lower costs.

16. — Of course, the first object of the effort to improve the organisation of the concern should be to assure the largest possible returns to the Treasury. And here we touch on the second problem on which clear and precise ideas are necessary. As I have already said, of the two elements between which the holder of any monopoly can choose, sales volume and prices, the Italian Government has neglected in this post-war period the first of these, and this in an exceptional phase of a seller's market when the rare opportunity offered for combining a price policy with one for increasing the volume of production and sales. The hesitations which have prevented the Government from manipulating prices to its advantage seem to me incompatible with the present Italian situation. Today our fundamental aim should be the rehabilitation of national finance, whose disequilibrium is the most dangerous of the causes of inflation. With this end in view, extraordinary taxes are already being levied on producers, in a measure which perhaps exceeds their power of resistance. According to the estimates for 1947-48 the ratio between direct and indirect taxes and the whole volume of fiscal receipt will stand at 33 1/3%, an unprecedented figure (see Table V), and this is due above all to the heavy

capital levy decreed in 1947 (9). Yet nevertheless the estimated deficit for 1947-48 still stands at no less a sum than 206 milliard lire (8). Under these conditions, there are obvious reasons for setting aside any surviving inclinations to spare the consumers of non-essentials. I can see no reason why an exception should be made in favour of tobacco. Indeed, under these special circumstances I consider that the monopoly should be exploited to the utmost extent possible, until the point is reached when the relation between selling price and volume of sales is that which assures the maximum fiscal revenue. Nor should I hesitate to sacrifice for this purpose and for some time to come the production targets now in view, especially if the check on production were to leave more lands and more materials available for raising essential products now in short supply. To do otherwise would be contrary to the present emergency with my mind to conceding a subsidy in favour of smokers and relinquishing action to make the tax on tobacco approach once more the level which had been accepted as reasonable in normal times. Unless the prices be manipulated on realistic lines it will moreover be difficult to maintain, or increase as would be desirable, the ratio of approximately 14% to total fiscal revenue which the proceeds of the Tobacco Monopoly accounted for in pre-war years (9).

8) See Benvenuto Girotti, *Three Forms of Capital Levy in Italy*, in this issue, p. 149.
9) The present estimates for the Italian budget are subject to constant revision, owing to the very unsettled monetary and economic situation. The latest, made in October 1947, reckon that tax receipts have risen to 206 milliard lire as against expenditure which has risen to 216 milliard; the deficit has remained at the approximately estimated figure.
10) In the first three months of the financial year 1947-48 (10th September 1947) the proceeds of the Monopoly, amounting to 23 1/3 milliard lire, represented precisely about 14% of the total government receipts from taxation (156 1/3 milliard lire).

Premises and Tasks of the Special Fund for Financing the Italian Engineering Industry by ROBERTO TREMELLONI

On September 1947 (D. L. of the Provisional Head of the State, 5-9-1947, n. 89), the Italian Government decided to appropriate 55 milliard lire, in twenty annuities which can be discounted 81% for financing the Italian engineering industry (Fondo per le Industrie Meccaniche: F.I.M.).

The establishment of so large a fund at a time when a new credit and financial policy was being started, clearly shows the importance the Government attaches to this branch of activity and to the solution of the problems besetting it. A rapid examination of these problems and of their financial aspects may therefore be considered as of particular present interest.

The Italian engineering industry is the branch of industry that has developed rapidly since 1924. In the decade which began in 1919 it redoubled its activity, showing a rate of increase markedly superior to that of other branches (2), and occupied the first place in the list of Italian industries, displacing the textile trades which had been the most important in the previous 50 years. This exceptional development has been due not only to the needs of a typical phase of industrialisation, accompanied by growing mechanisation, but also, to a considerable extent, to the exceptional stimulus afforded by autarchic policies and military preparations.

The industrial census taken by the Central Institute of Statistics (1937-1939) already afforded evidence in 1936 of the most important position occupied by the engineering trades in Italian industrial life from the point of view of the number of persons engaged in them, the value of the output, and the capital invested. The ranking order of the several branches of industry at that date is shown in Table I. The engineering trades alone account for about 19

| INDUSTRIAL BRANCHES AS PERCENT OF TOTAL INDUSTRY IN ITALY (1939) |
|:-----------------|:-----------------|:-----------------|:-----------------|:-----------------|
| Branches         | By persons       | By horsepower    | By capital       | Total average   |
|                 | occupied        | used             | invested         | (1 + 2 + 3)     |
| 1. Engineering   | 20.7            | 19.0             | 17.9             | 18.8            |
| 2. Textiles      | 20.1            | 14.4             | 11.0             | 16.0            |
| 3. Food and drink| 17.7            | 15.4             | 17.0             | 12.8            |
| 4. Electricity   | 1.3             | 2.6              | 1.9              | 2.4             |
| 5. Iron and steel| 3.2             | 1.6              | 1.3              | 2.4             |
| 6. Chemicals     | 3.5             | 9.2              | 5.0              | 7.3             |
| 7. Building      | 14.8            | 2.7              | 3.9              | 5.3             |
| 8. Non metallics | 5.5             | 6.4              | 4.5              | 5.1             |
| 9. Mining and    | 1.7             | 1.8              | 1.7              | 1.7             |
| 10. Textile      | 1.4             | 1.6              | 1.2              | 1.4             |
| 11. Leather      | 2.1             | 0.7              | 0.9              | 0.9             |
| 12. Miscellaneous| 2.1             | 2.2              | 2.6              | 2.2             |
| 13. Paper        | 1.7             | 1.7              | 1.6              | 1.7             |
| 14. Printing     | 1.8             | 1.1              | 1.1              | 1.1             |
| Total Industry   | 100             | 100              | 100              | 100             |

1) For fuller information about the origins of the Italian engineering industry consult, besides the general works by Bar-bellona, Menotti, Tremelloni, which give a detailed bibliogra phy, Guido's *L'Industria dei materiali in Italia* (Turin, Einaudi, 1943). Among the recent studies that have appeared on the engineering industry in Italy, see more especially Report of the Economic Committee of the Ministry for the Constitutional Assembly II Industry Vol. I, Rome, 1947.
2) From 1939 to 1944, while the labor force taken as a whole increased by 2,7%, that engaged in the engineering trades increased by 39% (744,000 persons).