Some Aspects of the Franco-Italian Customs Union
in regard to the Gradual Manner of its Achievement

by

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1. It is generally admitted that a Customs Union cannot be numbered among the forms of inter-State economic collaboration which achieve an immediate and total effect, but that it is not to say that the benefits of the union will only show themselves in the very distant future.

It is certainly true that the preparatory studies and the decision to achieve the Franco-

Italian Customs Union were undertaken rapidly, considering the complexity of the material to be handled and the importance of the step taken. If we wish to produce concrete results in the near future, to enliven and encourage whole economic sectors in both countries, it is essential that the practical realisation of the plan—though it must necessarily be by stages—should not be excessively delayed.

In the general interest, the period of transition—which is always a period of crisis—should be reduced to a minimum, and the benefits resulting from the reorganisation of the two markets should be secured as soon as possible.

In addition, it is necessary to prevent the urgent demands of economic reconstruction—not incorporated in a single co-ordinated plan—from crystallising the new economic structures of France and Italy in divergent forms. These problems engaged the attention of those who were charged with the work of preparing the economic union between France and Italy and were considered at some length in the final report of the Mixed Commission. The solution of these problems clashed with, and to some extent found its mitigation in, another fundamental need: to prevent the two complex economies, which have reached their present definite shape through a long process of growth, from suffering a sudden upheaval which might cause serious injury to important economic interests, perhaps with disastrous results during a lengthy period of adaptation and amalgamation.

The attempt to harmonise these opposing factors, and the necessity in individual cases of taking into account the dominating interests of both economies, clearly resulted in a large number of compromises in the report of the Mixed Commission. These have been criticised, interpreted in various ways, and on some occasions there have been deductions of a general and wide-ranging nature which must be discussed.

2. It is obvious that some ideals cannot fit in wholly with the existing economic interests and that a complete respect of the latter is impossible, not only because of the inevitable practical results, but above all because of economic reasons of a collective character. Nor must we forget the exceptional and acute sensitiveness of the two populations.

A well-known French economist, who has been giving lectures in Italy with the aim of fostering the ideal of European Union, has recently emphasised that the Franco-Italian Mixed Commission was concerned too much with the defence of economic interests which were either directly competitive, or at least non-complementary, between the two countries. In many cases agreements between the opposing interests were contemplated; these might turn into veritable trusts, and the final result might be a rise instead of a fall in prices and a complete reversal of the principle of the international division of labour, causing a definite in-
crease in the cost of living. It was also stated that the Joint Report of the Commission contemplated excessive limitations on the movement of persons, while the movement of capital would only be permitted when absolute equality had been reached in the level of rates of interest in both countries.

These criticisms deserve to be seriously discussed. Without going into great detail, we may point out that these observations—which are very useful to the authorities in the two countries who have such arduous labours to complete—did not contain any concrete, practical proposals, which would definitely have been of the utmost value and would have clarified the critical tone. In fact, the counter-proposals made to the solutions suggested by the Mixed Commission were not carefully thought out to fit the economic interests and the existing facts, which, whether we are optimists or pessimists, revolutionaries or conservatives, remain inalterable in their hard necessity. It was merely stated that it would have been possible and right to eliminate any transitional phase, any gradual process of attainment, simply by announcing and immediately putting into effect the basic laws of the international division of labour, leaving full freedom of movement for commodities, capital and people, while at the same time completely preventing all forms of agreement between producers, these being regarded as harmful. In other words, today, when national economies are controlled, wholly or partly, by parties to the basis of their social plans, when customs unions involve difficult technical, economic and political adjustments and considerable concessions by the Governments themselves—including, according to our critic the simplest practical solution would consist in allowing men and economic laws to operate in complete freedom.

But this would be to overlook the most serious obstacle of a general nature—the organic dissimilarity and incompatibility of the existing economic systems and economic practices in the two countries concerned, and in all the remaining countries of the world—in relation to the objective to be pursued: the economic union.

An economic union, which is a fusion of two national areas into one common factor of economic activity, is also a decisive act of economic equalization; it implies the progressive weakening and final disappearance of the general obstacle mentioned above and the necessity of economic recovery in each country, or at least of a more uniform and unifying economic policy as a basis for super-national recovery.

We must recognize that this general obstacle is also dependent on economic conditions resulting from the pressure of internal economic and political groups, which are scarcely aware of the general interests involved. Having admitted this, we must hope that, thanks to the general clarifications of ideas now taking place between the two countries, it may be possible rapidly to lessen the restrictions and restore economic freedom, thus contributing in a definite way to the process of unification.

The agreements among producers should be regarded as an effective form of collaboration between the economic forces and their respective Governments. We may assume that the latter have, from the first moment, promoted an increasing number of meetings between Italian and French producers, even before a definite programme for the projected Customs Union was presented to the respective Parliaments, with the deliberate intention of integrating the conclusions reached by the joint expert commission giving a greater or lesser value to them—in order to have a more complete and realistic picture of the actual possibilities and the appropriate time for proceeding to unify the two economies.

We should therefore not speak of “trusts”, but of free collaboration in the effort to meet potential competition, which would show itself clearly as soon as the present quantitative restrictions and exchange controls had been removed—a collaboration which will only be approved by the Governments if it serves the common interest or is useful in solving particular problems, especially those of a social nature.

As regards the human problem, it cannot but be agreeable for us to hear, especially from an eminent French speaker, that this should have been solved, once for all, by immediately granting complete freedom of movement to all persons living within the boundaries of the Union. We should be delighted if similar words were pronounced by the responsible authorities in France: but we realize the obstacles that such a suggestion would meet, just as we have honestly recognized that—at least in this first stage—certain restrictions for which the French have asked were legitimate and timely. We agree, however, that the right path to follow is that of the maximum freedom of movement and we shall continue to work for this aim, not only in regard to questions of manpower, but also because we are convinced that the sacrifices and concessions, the temporary upheavals inherent in the practical execution of such a vast project, will find adequate compensation in large-scale benefit only if the psychological attitude of the two peoples gradually changes, as they throw overboard many prejudices of the past, give up harmful claims to supremacy, devote themselves—without preconceptions and with an understanding of the aims to be pursued—to a loyal and fair collaboration, thus showing that they have reached the required maturity and the capacity to estimate correctly the sacrifices and the gains from such a course. They must feel that their action is directed to the common good, that they will gain in freedom and in strength, that they gain in welfare what they now lose in sterile and harmful rivalry.

Replies now to further criticisms of the work of the Mixed Commission, namely, that the latter had ruled out the possibility of restoring full freedom of movement of capital, etc., I am convinced that there was a perfect balance between the interest rates in force in the two countries had remained unchanged, the fact that the interest rates and the financial conditions in France were not the same as in Italy, that the two Governments should remain the agents of the above-mentioned delays in the free movement of capital. The statements contained in the first
part of Chapter VII of the Final Report of the Expert Commission are proof to the contrary.

It is true specifically laid down that "in relation to the conditions in the two capital markets, the shortage of capital is now and always will be more serious in Italy than in France, and the rate of interest is now and always will remain higher in Italy than in France", while in the conclusion of this Report we read that "it is above all in the field of capital and manpower that the complementary nature of the two economies is shown". In view of these statements, it would clearly be absurd to make the free movement of capital dependent on reaching a balance in the cost of money between Italy and France, when this is, in fact, considered as unattainable.

The theory that the general interest grows by a fusion of differing economic situations is true. It is equally true that the result need not necessarily be an adjustment of the more favourable to the less favourable conditions, with a consequent general deterioration. But it is only natural that neither of the partners "should immediately deprive itself, to the advantage of the other partner, of its privileged position and of the essential factors needed for the reconstruction and reorganization of its war-damaged economy.

For these reasons, having already pointed out that for many years to come the capital available in the two countries will fall short of their respective needs, the Commission—with a view to protecting the financial market—agreed to delay the proposed free movement of capital towards Italy until the French capital market had become normal again in relation to its own basic financial needs.

Despite these and other restrictions made necessary by the particular economic situation and the individual requirements of each country, it is satisfactory to note that, only four months after the first agreements were signed, some of the general monetary and financial estimates then made have proved to be excessively cautious and pessimistic. So that we can say that in the rough and difficult path towards the re-establishment of full convertibility between the two currencies and free movement of capital, much progress has already been made, and the results of these first agreements (signed at Turin on March 20th last) give ground for high hopes.

As to the criticism that the two Governments have not shown sufficient eagerness in pushing on with the formation of the full Customs Union, being preoccupied more with the economic than with the political aspects of the problem, one can only register surprise at such a remark. In these matters, political and economic aspects are so completely fused that it is difficult to decide which is the more important and which is based on the other. A decision imposed from above would run the risk of creating an artificial situation, temporary and lifeless. Equally, this might happen if the two Governments do not achieve the happy mean between excessive speed and undue caution.

1. Purchasing power parities. — The disordered conditions prevailing in the Italian foreign exchange market are the common inheritors of war and of monetary inflation. Broadly speaking, the most striking maladjustments in the post-war period were: a) the development of a multiplicity of rates applying to a greatly diversified pattern of international transactions, b) the wide fluctuations of exchanges in the free markets, and c) the disparity between price levels and exchange rates in Italy and abroad (1).

a) The Allied Forces landing in Italy established the official rate at 100 lire to one dollar and 400 lire to one pound sterling. To reduce disparities in price-levels exporters sold under a decree issued on 21 January 1948, a further fund quota amounting to 125 per cent of the official rate which was, at the same time, charged to importers. A few months later, the 50 per cent system was instituted (under a decree issued on March 26, 1949) for trade with countries not linked to Italy by a trade and payments agreement. Later, the 50 per cent system was adopted also with respect to some payments agreements, such as those concluded with Turkey and Portugal. Under this system, exporters and other recipients are permitted to sell half of their exchange proceeds, within specific time limits (at first 30 days, later 60 days), at the rate they can get from authorized importers. The latter half is to be surrendered to the Exchange Control Office (Ufficio Controllo Cambi - Italy) at its official buying rate. Italian traders quickly organized a foreign exchange market where dollars, pounds sterling, and Swiss francs were regularly traded, though the specified commodities could be imported under this system. Thus, they are set out in two lists: A comprising goods for which no import permits are needed, and list B comprising goods for which an import license is necessary. The average rate at the exporters corresponded to the average between the official rate and the free rate quoted in the 50 per cent foreign exchange market. This average rate constantly overvalued the lire. It became necessary to deviate the official rate in August 1947 from 100 to 350 lire to one dollar and, with respect to some exporters, to raise the percentage of receipts allowed to them (30 or 45 per cent for shipbuilders, 75 per cent for wool manufacturers, etc.).

All these measures proved inadequate. On November 28, 1948, certain re-measuring measures were adopted. They can be briefly summarized as follows: The Italasini buying rate is the average of the free quotations during the preceding month, asking for the dollar, quotations exceeding 550 lire or less than 350 lire; all provisions favouring specified groups of exporters are abolished, available balances would after a period of 60 days to be surrendered to the Exchange Control Office at a 20 per cent discount. In this way the foreign exchange structure

Exchange Rate Structure and Price Levels in Italy: 1947-48

by Bruno Brovedani

The quickly depreciating exchanges and the successive official devaluations of the lira resulted, directly or through an expansion in the volume of money supply, in steeply rising internal prices. The confused conditions prevailing on the Italian foreign exchange market have often distorted foreign trade relations or have resulted in windfall profits or severe losses for some categories of importers or of exporters, notwithstanding official controls. Italian exporters often clamoured for a currency devaluation in order to improve their competitive position in the world markets. The transformation from a seller's to a buyer's market has added to the existing difficulties, making devaluation even more tempting.

It may be of interest to make a retrospective examination of the Italian foreign exchange structure and of the internal price level during 1947 and the first half of 1948 with a view to showing the degree of inter-relationship existing between these two important elements of the economy. The foreign exchange reform, adopted at the end of November 1947, is considered here as a landmark along the road to the establishment of less abnormal conditions because a remarkable integration and rationalization of the exchange structure was thereby achieved.

attained a higher integration and fluctuations in exchanges were kept within moderate limits.

Throughout this article, in order to avoid misinterpretations, the following terminology has been consistently applied:

a) Official rate: until August 3, 1947, 100 lire to one dollar; December 350 lire to one dollar.

b) Italasini buying rate: at which 50 per cent of proceeds are surrendered to the monetary authorities.

c) Import rate: free rate quoted in the 50 per cent foreign exchange market.

d) Export rate: the average between the import rate and the Italasini buying rate.

e) Black market rate: for illegal transactions.