

*Caproni
missions
to Spain, Italy
and Brazil
Italy Negs.*

OFFICE MEMORANDUM

TO: Mr. Orvis A. Schmidt

DATE: June 21, 1948

FROM: L. Svoboda

SUBJECT:

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I have shown this memo to Mr. Hoff on June 22. He agreed in principle to Mr. Woolley's report sent for Mr. Woolley's and Mr. Conroy's consideration. 6-22-48

Attached is a preliminary report of the Bank's Mission to Italy - 13 April to 6 June, 1948. The highlights of the material covered may be briefly summarized as follows:

1. Although the Bank had in Mr. Garner's letter of February 6, 1948, to Dr. Menichella invited the Italians to submit projects falling in four sectors (namely: irrigation, iron and steel, electric power, and shipbuilding), the Italian Government, in its initial suggestion to the Mission, submitted projects in iron and steel and shipbuilding sectors and only the geothermic project of Lardarello in the electric power sector. In order to offer the Bank a wider selection of projects, the Mission suggested that hydroelectric and land irrigation projects be added. As a result of the discussions, the following projects were submitted by Italy for further consideration as possible basis for a loan.

- A. Steel Industry - a group of projects for the rehabilitation of three integrated plants owned by Finsider and a project by Fiat for the modernization of its steel works. The imported materials for these projects would run to \$40 million.
- B. Merchant Marine - a project for the construction of 12 cargo passenger ships and 10 small freighters. Cost of imported materials would run \$21.3 million.
- C. Land Irrigation - a project for irrigating 50,000 hectares in the area of the lower Volturno Valley. Imported materials would cost \$5.7 million.
- D. Electric Power Development - the completion of four hydroelectric plants and reservoirs, the construction of the geothermic power station at Lardarello, and the completion of a national transmission line. Cost of imported materials for these would run to \$22.1 million.

The total import requirements for all of these projects is valued at \$89.1 million. After eliminating the cost of coal, petroleum, and some miscellaneous materials to be obtained under ERP, this would be reduced to \$70 million.

2. During the discussions ^{with the Bank's mission} the Italian representatives requested assurance that a loan from the Bank would not reduce aid to Italy under ERP. They were told that this was a matter which they should take up with the representatives of the U.S. (Just prior to my departure from Italy, Dr. Menichella indicated that Italy would not care to enter into loan negotiations before the end of July since the relationship of ERP to the projects would not be known until then.)

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3. Significant developments in Italy's international position are as follows:

Its dollar position is improving although specific information was not obtainable prior to my ^{recent} departure. A reversal has taken place in Italy's position with respect to clearing countries, Italy having turned from debtor

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to creditor in its overall position. No further accumulations of sterling balances are taking place. The latter is probably due both to increased imports from the U.K. under the new trade agreement and to the fact that Italy can no longer receive payments in sterling for exports to countries outside the sterling area.

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4. Recent developments in the domestic economic situation are the following:

Despite a steady increase in total money supply, caused principally by huge government deficits, prices - due to improved supplies of consumption goods and possible large scale currency hoardings - showed a continuous decline since September, 1947, reaching a relatively stable position in February, 1948. Inasmuch as wages continued to increase or remain rigid, real wages rose about 15%, giving more purchasing power to persons in the lower brackets. As a result of this development and due to the Government's heavy subsidies and social outlays, real consumption during this period increased considerably. Savings consequently remain low and inadequate to meet national investment requirements in contrast to 1946 and the first half of 1947 when large scale investments were effected through forced inflationary savings, (although at the risk of social disturbances.)

Italy's crucial problem now seems to be to achieve the proper equilibrium between consumption and investment. Governmental measures necessary to bring about this equilibrium should include: (a) a substantial reduction of the budget deficit principally by eliminating food subsidies, (b) establishment of a relationship between price and wage levels which will reduce real wages, (c) employment of increased private savings in investments which are economically most productive, (d) proper direction of ERP lire funds to supplement investment.

5. While in Italy, the Mission made on the spot investigations of the following projects:

- Geothermic Plant at Lardarello and I.L.V.A. steel works in Piombino;
- The Terni power developments in Central Italy;
- Irrigation projects in the lower Volturno Valley in Southern Italy and the Bagnoli steel plants near Naples;
- Hydroelectric power development projects in Trento region and in the Piave Valley.

Among the people interviewed concerning Italy's economic situation, the more important were:

- President Luigi Einaudi;
- I. M. Lombardo, Minister of Industry and Commerce;
- Prof. Segni, Minister of Agriculture;
- Prof. Pella, Minister of Treasury;
- G. Balducci, Accountant General;
- Dr. Menichella, Acting Governor of the Bank of Italy;
- Dr. Vernucci, General Director of the Italian Foreign Exchange Office;
- Dr. Carli, Member of the Board of the Italian Foreign Exchange Office and Executive Director of IMF.