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Italy's External Balance and the Vanoni Plan

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Early this year the Italian Government made public the Vanoni Ten-Year Development Plan which, over the period 1955-64, envisaged an average rise in real national income of about 5 per cent annually and the elimination of chronic unemployment. Despite the increased imports made necessary by the projected investment program and the rapid growth of domestic incomes, external balance was also expected to be attained upon completion of the Program.

The obvious difficulty of meeting simultaneously these two apparently conflicting Vanoni Plan goals was clearly recognized by the Italian framers of the Program as well as by its critics abroad. Consequently, for practical purposes, it soon seemed desirable to map out a somewhat shorter working development program for the four-year period 1955-58, which was submitted to the O.E.E.C. in March 1955.

Although the new Four-Year Plan did not abandon the earlier long-term goals, it scaled down the immediate targets for the sake of greater realism. Thus it projected an average annual increase in national income of only about 4.5 per cent for the years 1955-58 and it envisaged some reduction rather than the complete elimination of structural unemployment; it also envisaged an external deficit in 1958 of about the same magnitude as in 1954 ($275 million) rather than external balance.

This paper will be directed toward answering the following questions, relating primarily to the Italian balance of payments, within the focus of the Four-Year Program: (1) What structural changes in the Italian trade pattern (and, indirectly, in domestic production) may be required in order to correct Italy's external balance; (2) To what extent have these changes already occurred within a framework of increasing trade liberalization and of market shifts in demand and production both in Italy and abroad; (3) What limitations, if any, may the external payments problem impose upon growth and creation of the requisite number of new jobs; and, finally, (4) What amount of foreign aid may be required to implement the Vanoni Plan goals, especially in the initial four-year period of development?1/

Trends in the Italian external balance

The projected balance for 1958 -- Even the new assumption, seemingly modest, that the 1958 external deficit can be held down

1/ In a subsequent paper, the domestic aspects of the Vanoni Plan will be discussed, including the question of whether, and how, it may be possible to mobilize the real and financial domestic resources necessary for the implementation of the Plan.

to the 1954 level ($275 million) will be fairly difficult to attain, in view of the projected investment program and the implicit strain on the Italian domestic resources.1/ The problem, upon which past postwar experience may shed some light, is, first, whether exports and incomes can be raised at a substantially faster rate than imports and domestic consumption; and, secondly, whether the necessary projected changes in the structure of imports and exports can be expected to occur by 1958.

It may be noted that at about the time of the outbreak of the Korean War the solution of the Italian balance-of-payments problem appeared to be imminent since the imbalance of the early postwar years had been largely corrected.2/ A short period of optimism was followed, however, by a substantial deterioration in the external balance and, only more recently, by some renewed improvement.

1/ The magnitude of this effort may be shown by comparisons between the most recent years (1950-54) and 1955-58 (as projected). In 1950-54, all import items increased by 613 billion lire while gross investment rose by 707 and national product by 3,030 billion lire. Thus, imports and gross investment rose almost in a 1 to 1 ratio; and the ratio of the increment in imports to the increment in GNP was about 1 to 5. It may be noted that 1950 was a year of very high imports for Italy, which perhaps has made the ratio of import increment to investment or GNP increment somewhat higher than it might otherwise have been.

In contrast, in the 1955-58 period, the growth in imports is projected at 287 billion lire, in gross investment at 885 billion and in national product at 2,195. Thus imports and gross investment are to rise in a 1 to 3 ratio, and the ratio of import growth to GNP growth is to be only 1 to 8, implying considerable restraint on internal consumption. The share of investment is to rise from 21 to 24 per cent of gross availabilities while the share of consumption is to decline correspondingly, presumably as a result of unspecified monetary or direct controls.

2/ Before World War II, the persistent deficit of Italy's balance of trade was usually, although not always, offset by a surplus in the invisibles. After the war, external deficits were raised: (1) by the lower domestic production of basic food items, mainly cereals; (2) by the loss of some German and most Eastern European markets, which formerly imported most of the large surplus of Italy's fruits and vegetables; and (3) by severe losses in the Italian merchant marine and the smaller number of foreign tourists. The first and third of these trends, however, were again reversed in the last few years.

Postwar balance of payments shifts -- Following the monetary stabilization and lire devaluation of 1947, Italy's exports made a striking recovery while imports simultaneously were cut back. From 1948 through June 1950 a small dollar reserve was accumulated. The Italian Government was even criticized for its failure to permit greater external deficits, which would have facilitated a higher level of domestic investment expenditures; and for its apparent inability to utilize Marshall Plan aid more fully for development purposes and for the elimination of unemployment.1/

The external situation abruptly changed following the Korean War. Serious balance-of-payments problems developed, first, with the dollar area (in 1951 and 1952) and, later, with the EPU area (in 1952 and 1953). Italian markets abroad were damaged by imposition of new trade restrictions by Italy's major trading partners, France and the United Kingdom, as well as by the growing strength of her competitors, such as Western Germany and the Netherlands. Meanwhile, Italian surpluses grew with "soft-currency" countries -- such as Brazil, Egypt, Yugoslavia, and Argentina -- with which Italy had concluded clearing agreements. Thus Italy, itself a debtor country, was in effect extending credits to other debtor countries, thereby magnifying its regional imbalance.2/

The improved external balance in 1954 -- However, the Italian foreign trade deficit in 1954 ($764 million) was again lower than in 1953 ($913 million). On a global basis, the reduction was due to a decline in imports of less than one per cent and to a rise in exports of about 8.5 per cent (see Appendix Table 1). Largely responsible for the reduction in Italian imports (especially from the dollar area) were the smaller purchases of wheat and corn, following the 1953 record

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1/ According to Albert O. Hirschman, "The . . . second lesson of Italian experience is that a country may, through currency devaluation and internal deflation, solve the balance-of-payments problem too soon; i.e., before the more fundamental economic and social conditions have been improved to an extent consonant with the broad objectives of the European Recovery Program." (Economic and Financial Conditions in Italy, December 14, 1948, p. 16.)

2/ Recognizing this problem, the Italian Government has attempted to push its purchases from clearing-agreement countries with which large surpluses had developed, and it managed, in the last quarter of 1954, to reduce such balances by the equivalent of about $25 million; about one-half of this amount represented a reduction in the credit balance to the U.S.S.R. For the calendar year the reduction in Italy's claims on clearing account countries amounted to about $21 million, compared with an increase of $38 million in 1953.

crop,[1] and of cotton and wool, because of depressed conditions in the textile industry.

Export values in 1954 were enhanced by the rise from $61 to $132 million in shipments to the United States of offshore military items; nevertheless, even if these extra-ordinary sales are excluded from the calculations, the increase in Italian commercial exports in 1954 still would have been 5 per cent at current prices. Improvements in the terms of trade, reflected especially in the rise in average export prices of fruit and vegetables, also contributed to the improved trade balance; in 1954 the index of prices received for Italian exports rose by approximately 3 per cent over 1953 while the index for import prices declined slightly. For particular products (such as fruits and vegetables, automobiles, and petroleum products) Italian export gains last year were very marked, and they offset declines in other sectors, such as textiles (see Appendix Table 1).

The so-called "invisible" items in the Italian balance of payments also improved appreciably in 1954; they covered about 60 per cent of the commodity trade deficit in 1954, as compared with only 40 per cent in 1953. However, Italian receipts in the form of foreign grants, including U. S. economic aid, have been progressively declining -- from $124 million in 1953 to $91 million in 1954.

In conclusion, the global deficit on current account fell from $580 million in 1952 to $450 million in 1953 and $275 million in 1954 (for lire equivalent, see Appendix Table 2). The cut in last year's deficit reflected a decrease in the Italian trade deficit of about $100 million and an increase in net receipts from invisible items (including unilateral transfers) of about $75 million.

Balance of payments and trade outlook for 1955 -- Judging from early 1955 trade data, the prospects for this year seem somewhat less hopeful than the actual performance of last year. Preliminary trade figures indicate a deficit of almost $160 million in January and February 1955, a rise of 7.4 per cent over the comparable period of 1954. For the first quarter as a whole, Italy's exports in 1955 are reported to be 3 per cent below 1954 while imports are only 0.4 per cent lower than in the comparable period of last year.

Such a trend was already becoming apparent in the latter part of 1954 (see Appendix Table 3): as compared with each month of the preceding year, Italian export performance was markedly

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1/ Largest of all, due to the excellent crops of the previous year, was the shrinkage of wheat imports, which fell from 1,233,000 tons in 1953 to only 250,000 tons in 1954. There were also reductions in other foodstuffs.

better in the first half of 1954 than in the second half of 1954. In fact, in November and December of 1954, Italian export values were actually lower than in the same months of 1953. While the lower trade deficit in the first half of 1954 was entirely due to increased Italian export values, it reflected in the second half largely a shrinkage of imports, probably to a level well below that which can be maintained this year.1/

Correction of the external balance

The Italian balance-of-payments problem may become even more critical because of the large import requirements of the income growth projected in the Vanoni Plan.

The new four-year program recognizes the rather limited sources of foreign aid and foreign investment. Special emphasis is accordingly being placed on tangible methods of improving the external balance, and especially of raising the level of exports. These efforts are directed toward: (1) governmental promotion of intra-European cooperation and greater trade liberalization; and (2) a basic readjustment of the Italian industrial structure to balance-of-payments requirements. Various tax, credit, and other incentives designed to aid Italian exporters are also being devised.

Progress toward removal of intra-European trade and exchange restrictions -- First, government policy continues to stress adjustment of the Italian external deficit, insofar as possible, through the price mechanism and through removal of trade restrictions. Italy has maintained a liberal trade policy within the O.E.E.C. area, despite heavy pressure for deliberalization from both right- and left-wing opponents as well as from some industrialists.2/ Opponents of liberalization

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1/ Industrial raw materials imports, however, tended to rise already in the latter part of 1954; with rising levels of industrial production forecast for 1955 it seems reasonable to assume further increases in imports of such materials.

2/ For example, Italy has removed quantitative restrictions from 99.7 per cent of its imports from O.E.E.C. countries (including the nonparticipating sterling countries); maintained in effect a schedule of provisional tariff rates that are, in general, about one-third below the general tariff rates permitted by GATT in July 1950; and almost completely abandoned state-trading. Most of these measures were adopted in the fall of 1951, when Italy was accumulating substantial EPU surpluses.

point to the failure of other O.E.E.C. countries, such as France and Germany, to free entirely the import of Italian agricultural products; to the widespread use of so-called "unfair" export incentives maintained by its European competitors; and to the bargaining advantages to be derived from a higher initial level of restrictions in bilateral negotiations with other countries. The Government has strongly resisted such pressures, recognizing that the higher import level has contributed to maintenance of internal stability and that any further lowering of the domestic living standards would have serious social and political consequences.1/

Italy's improved foreign exchange position has strengthened her ability to join in the general intra-European movement toward convertibility and relaxation of trade restrictions. In 1954, a $55 million gain in gold and foreign exchange holdings was reported by the Italian Exchange Office, in contrast to a similar loss in 1953 (see Appendix Table 4). Moreover, dollars, Swiss francs, and other convertible currencies continued to rise at an even faster rate ($166 million) than total exchange holdings, improving the "hardness" of Italian foreign assets.2/

Accordingly, in August 1954, Italian dollar imports were freed up to 45 per cent of the 1953 level. There has been fear, however, that further relaxation of dollar imports might produce an unmanageable inflow of certain dollar commodities, with consequent pressure on gold and dollar reserves and on the dollar-lire exchange rate.

1/ For similar reasons, devaluation as a method of correcting the Italian external balance is currently receiving little serious consideration, although Italy did, in fact, achieve a substantial external gain through devaluation with respect to the dollar area in 1947-48. Last year the value of the trade deficit was reduced somewhat in the opposite manner, that is, through a greater rise in the average Italian export prices than in her average import prices. If imports and exports are calculated at constant prices, the reduction in the overall deficit on goods and services amounted to $100 million instead of $175 million.

2/ It must be noted that changes in foreign exchange holdings indicated in Appendix Table 4 do not take into account fluctuations in Italy's debtor and creditor position, in regard to private short-term claims and liabilities. For 1954, the "financial account" does include, however, direct foreign investment in Italy, which amounted to $37 million in 1954, as against $16 million in 1953; the $10 million International Bank for Reconstruction and Development loan to the Cassa del Mezzogiorno; and the Swiss bank loan for the equivalent of $28.5 million to Mediocredito. On the other hand, settlement by Italy of its E.P.U. debts involved disbursement of $43 million.

Italian trade officials question also the ability of Italian exports to compete with dollar products in Western European and Latin American markets if dollar liberalization in those countries were entirely to be achieved. Certain industries or branches of agriculture might indeed experience severe income loss (e.g., textiles, dried and canned fruits and vegetables, and tobacco) even if the total quantitative impact on Italian exports were small. On the other hand, leading producers of machinery and chemical products (Olivetti and Montecatini, for instance) are fairly optimistic about their ability to withstand dollar competition.1/

Basic readjustment of Italian industrial structure to balance-of-payments requirements -- Secondly, industrial development might help to correct the balance-of-payments problem either by:

(i) Reducing imports of manufactured goods or of raw materials needed by Italian industry by developing domestic low-cost sources of supply of substitute products (for instance, mineral deposits, natural gas); or by

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1/ A general complaint of Italian exporters (in the mechanical industries especially) has been the recent alleged lack of tax concessions and export credits granted to their competitors abroad. To appease these groups and partially to remedy the situation, some limited attempts have been made to raise Italian exports through export credits and credit guarantees, provided in December 1953, as follows:

a. Guarantee against "special risks" for one- to four-year loans on capital equipment: A limit of 30 billion lire ($48 million) per year is set for fiscal 1954 and fiscal 1955, but thus far only about $16 million have been so guaranteed. The guarantee on any loan may not exceed 70 per cent of the total credit. Insurance charges vary according to the destination of export and the risk involved.

b. Provisions for medium-term financing of exports: The MEDIOCREDITO (a medium-term credit institution established in 1952) is authorized to rediscount or grant advances against bank-held export bills relating to capital equipment, with a maturity not exceeding four years. Rediscounts and advances may not exceed 75 per cent of the loan originally granted by the operating banks. Thus far little credit has been granted under this provision; only 2.6 billion lire ($4 million) as of December 31, 1954.

(ii) Increasing exports of industrial products (such as typewriters, sewing machines, chemicals) in which Italian industry is increasingly competitive in world markets; or of Italian agricultural specialties, such as quality fruits, for which world markets might be enlarged through creation of new taste habits.

In order to examine these possibilities, the trade and production shifts during 1954 may be contrasted with the 1958 projections. By areas, the biggest improvement in the trade balance was with the dollar and sterling areas and some clearing agreement countries1/ (see Appendix Table 5).

By commodities, the Italian import distribution moved away somewhat from agricultural products to basic raw materials used in manufactures, a shift considered likely to continue throughout the life of the Vanoni Plan. Most categories of Italian exports expanded in 1954 but at greatly varying rates. The greatest growth occurred in exports of fruits and vegetables, automobiles, chemicals, and petroleum products. The contraction in sale of textiles abroad went hand in hand with the generally depressed conditions in the industry, while machinery exports were virtually unchanged (see Appendix Table 1). Those industries which in 1954 showed the largest gains in sales

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1/ Increased dollar sales were to countries other than the United States, such as Venezuela, Haiti, Cuba, and Colombia; exports to the United States declined 10 per cent. Imports from the dollar area declined substantially, owing mainly to reduced grain purchases. Trade with the EPU area continued to expand; it represented about two-thirds of Italy's total foreign trade. There was a marked rise in imports from France, notably ferrous scrap and iron and steel products, and from West Germany, particularly ferrous scrap and chemicals. On the other hand, Italy benefitted from France's increasing trade liberalization and from larger German quotas for Italian agricultural products; the O.E.E.C. decision of January 1955 to move from 75 to 90 per cent liberalization during 1955 should further benefit Italian exports.

Italy's trade with the Soviet Bloc (including China) was up about 10 per cent from 1953; trade with the Soviet Union itself increased by about 70 per cent; however, this was offset largely by a decrease in trade with the European satellites and Communist China.

abroad also registered the biggest increase in production (chemicals, petroleum)1/; and they are also expected to show the biggest future export advances through 1958.

The projected balance of payments, 1958

For 1958, the Four-Year Plan envisages a current account deficit of about the same magnitude ($272 million) as in 1954. The method of financing this external deficit is also projected to be similar in both years. That is, about $128 million should be financed through foreign capital and the remaining $144 million through "extraordinary" items (off-shore procurement, etc.).

The following general assumptions with respect to growth and demand have been made in preparation of these trade projections:

(1) that total world trade would rise by about 3 to 3.5 per cent annually, owing to continued rising world income and liberal trading policies;

(2) that export incentives already adopted or about to be adopted would result in a further advance in Italian sales abroad;

(3) that world demand for some of Italy's main export items (fruits and vegetables, engineering and chemical products, tourist services, for instance) would be comparatively sensitive both to price and income changes. Thus, a fall in Italian costs and prices relative to those in competing nations, due to increased productivity anticipated in engineering, chemical, and other industries, would raise the overall Italian earnings of foreign exchange.

The last assumption appears to be the most tenuous of the three. For the period 1955-58, the average variation in world demand for Italian exports in relation to price changes (i.e., price-elasticity of foreign demand for Italian goods) is estimated to be

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1/ The general index of Italian industrial production averaged 170 in 1954 (1938=100), an increase of 9.7 per cent over the 1953 average (see Appendix Table 6). It was the largest percentage gain since 1951. The greatest expansion was in production of chemicals, coal and petroleum and its derivatives, artificial fibers, wood products, and rubber products, all of which showed percentage gains over 1953 of between 20 and 25 per cent. The natural textile, clothing, and food industries showed the smallest increases of any major manufacturing sector.

between 1.5 and 2; in this case, a reduction in Italian export prices of about 5 per cent would permit a 3 per cent rise in earnings from Italian sales abroad. However, experience last year, when rising prices of Italian agricultural exports in fact raised earnings from such exports, would suggest that world demand for these items may be fairly insensitive to price changes (i.e., have a price elasticity of less than one). On the other hand, last year's experience would also suggest that world demand for Italian exports was indeed very responsive to the rise in incomes to record levels (that is, had a high income-elasticity). It is also true that devaluation of the lira in 1947 with respect to the dollar area (which, however, meant an appreciation vis-a-vis most of Italy's Western European trading partners) had the effect of markedly improving foreign exchange receipts. These various events suggest the difficulty of predicting the effects upon earnings of changes in the Italian terms of trade as well as that of separating out the impact of price-from income-elasticity of demand for Italian products.

Projected imports -- For 1958, the total of the debit items in the balance of payments is estimated at 1,930 billion lire ($3.1 billion), indicating an annual rate of increase of 4 per cent. These calculations assume continued liberal Italian import policies and a 4-year rise in domestic incomes of about 20 per cent (see Appendix Tables 7 and 8).

The increase in imports of agricultural products, only 11 per cent between 1954 and 1958, would be fairly limited, since domestic output is expected to satisfy a larger part of national requirements (see Appendix Table 7). In the iron and steel sector too, domestic productive capacity should expand, with a consequent moderate import rise for these items.

However, the increase in imports of textile fibers and machinery would be slightly greater than the increase in national income. These imports include mainly essential raw materials and equipment needed for industrial expansion, which cannot be produced at home on economic terms. Power sources (especially crude oil imports) seem likely to remain the largest debit item, despite anticipated increased use of electric power and natural gas.

Projected exports -- Exports are projected to rise at the same rate as the national income (20 per cent) but at a higher rate than internal consumption (15 per cent). No significant increase is thought likely in exports of oil or of iron and steel.

A big increase in Italian sales of fruits and vegetables abroad is projected, in expectation of continued removal of trade restrictions in Western European markets. A large anticipated rise in sales abroad of Italian machinery and chemical products (27 and 22 per cent, respectively) is based on a general expansion in incomes and world markets, of which Italian suppliers hope to capture a relatively larger share. The present favorable competitive position of the Italian shipping industry points to increased freight earnings, again contingent upon the expansion of world trade; earnings from tourism are expected to rise at a somewhat slower rate than recently.

The deficit projected for 1958 amounts, roughly, to 9 per cent of projected total imports of goods and services; this is somewhat less than the present percentage of about 10.5 per cent.

Trade and economic growth -- The Italian Government, as well as the O.E.E.C. Committee of Experts examining the Plan, recognize the obvious difficulties of meeting these targets. The Italian export expansion is focused, first, on goods in which world markets are becoming increasingly competitive (e.g., machinery and chemicals); and, second, on relatively "non-essential" fruits and vegetables, which are heavily affected by any lingering evidence of direct controls (still persisting even in the case of the most "liberal" countries, such as Germany and the United Kingdom) and most likely to be the first to be affected in the case of a reintroduction of protection caused by balance-of-payments considerations.

There is the additional fear that imports have been projected at too low a rate of growth in relation to the growth in incomes; and that it may be politically impracticable to raise exports at a substantially faster rate than internal consumption. The projected growth in total imports is 17 per cent, compared with the 20 per cent projected growth in incomes; and the projected rise in consumer goods imports is well below the average rate. Since the projected income gain is largely to accrue to the partially or totally unemployed, the resulting increase in demand for both imported and home-produced consumer goods should be fairly heavy. A part of the additional net consumer demand, it is true, may be focused on industries in which idle capacity exists (such as textiles) but a part may press on already fully employed industries and create bottlenecks or upward price pressures. Governmental measures to restrict this rise in demand and in internal consumption would therefore have to be fairly drastic; in contrast to the policy of trade liberalization, they may come to include some form of import control to determine "essentiality" of the planned purchases abroad.

The estimates for imported raw material components (although they are projected to rise at a much faster rate than imports of consumer goods) are also rather low in view of recent relationships between growth in incomes and imports. The gradual shrinkage in imports to national income projected in the four-year Development Plan may have some historical basis over the very long-range, but not over the short-range, period. Imports and exports since 1911 have each been calculated yearly as a percentage of national income, and the ratios plotted historically for the period 1911 through 1958, as projected (see Chart 1). In addition, the import ratios have been plotted (on the vertical scale) against national income (on the horizontal scale), which has been deflated by the wholesale price index to give a rough measure of real income growth (see Chart 2).1/

The highest ratios of imports to income (between 20 and 35 per cent) occurred in the years during and immediately following World War I when real incomes were historically low and import requirements high. A sharp decline in the import-income ratios (to below 10 per cent) occurred during the mid-'thirties as a result of Fascist emphasis on autarchy. On the whole, the relationship historically over the period 1911-39 has been downward-sloping, but no significant slope is to be detected for the period 1947-54.

No positive correlation has been found to exist between export-income ratios and growth of real incomes; the scatter diagram has therefore not been presented. On a historical basis, as might be expected, a substantial decline in the ratios occurred in the war years and also under the Fascist regime (see Chart 1). However, Italian exports now are at about the same level relative to national income (about 9-1/2 per cent) as in the pre-World War I period (1911-15) and in the early 'twenties; this ratio is expected to remain virtually unchanged through 1958 also.

Foreign aid and Italian economic development

Italian requirements for foreign aid and capital should be heaviest during the initial four-year period of the Vanoni Plan.

Gross investments required for development are to rise most sharply percentage-wise through 1957 and, on an absolute basis, through 1960; import requirements, too, should then be heaviest. It is argued, however, that in the long-run (after completion of the four-year and, even more, of the ten-year program) the need for foreign assistance should diminish. Success in the internal development program is expected to improve the external balance

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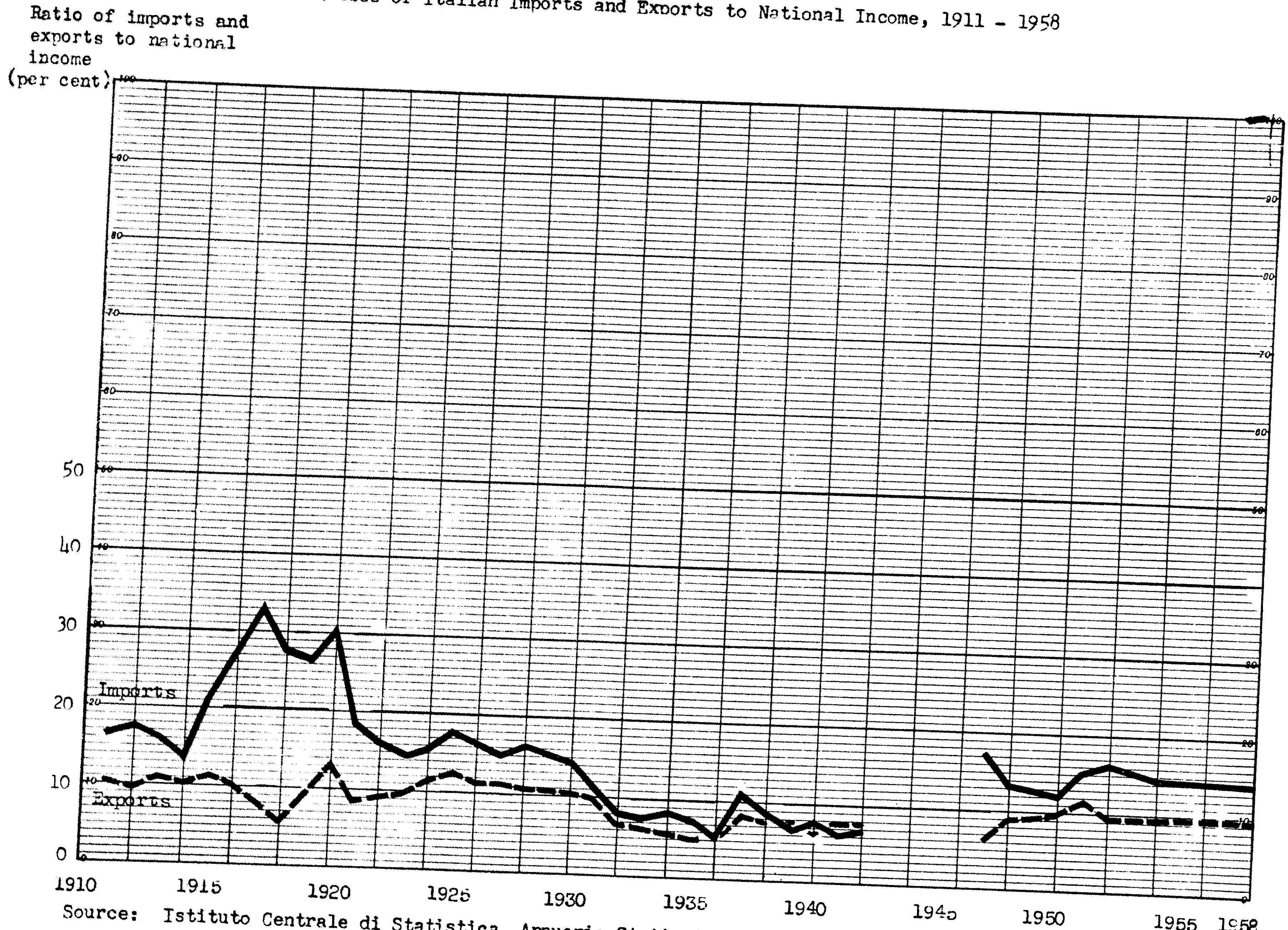
1/ Technically speaking, import ratios should have been calculated by dividing imports (deflated by a weighted import price index) by national income (deflated, again, by a price index weighted according to changing income composition over the years). However, such data are not available on a historical basis for Italy, and it is believed that the rough method used is sufficiently indicative of the trend.

Chart 1

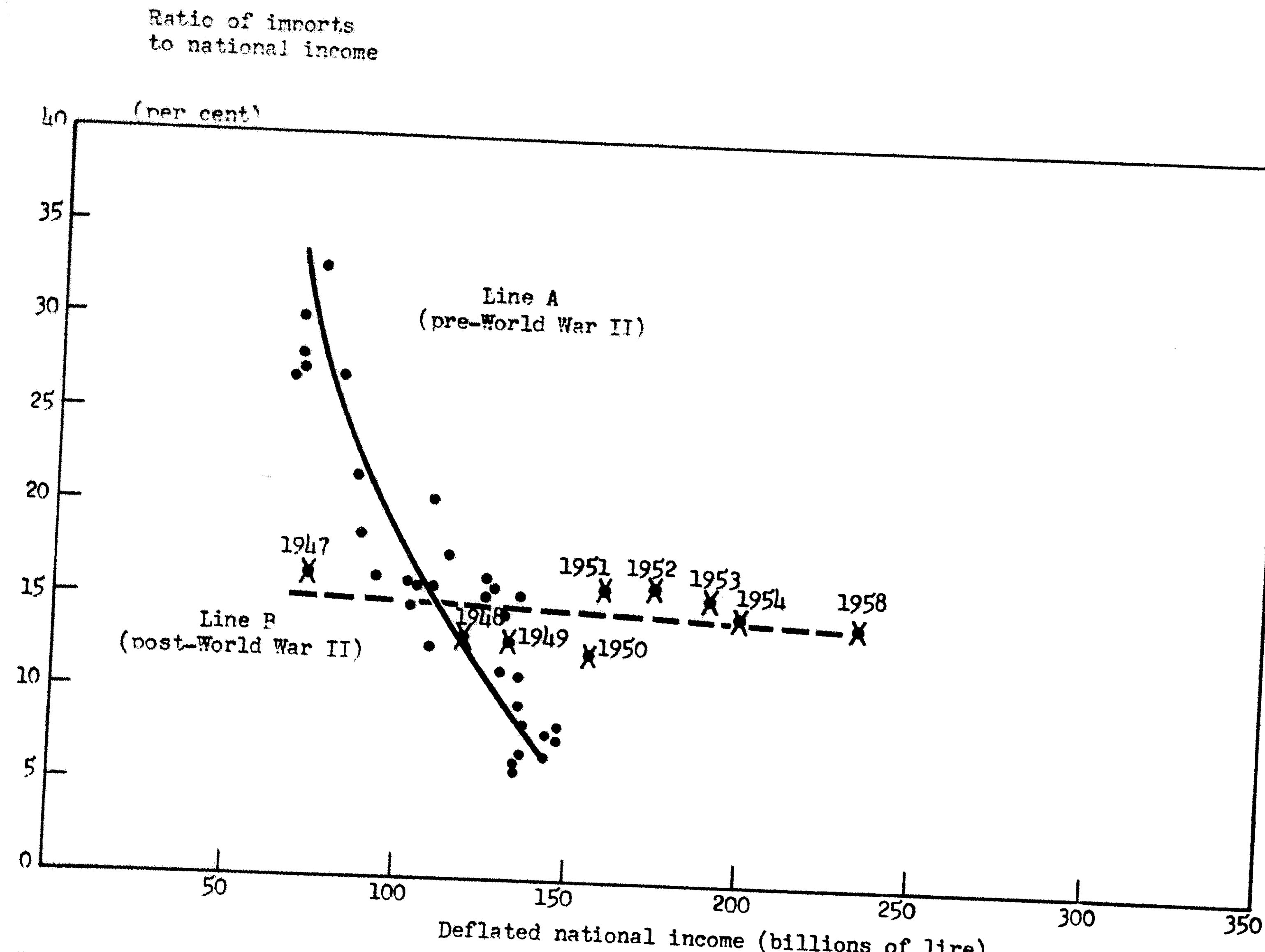
Ratios of Italian Imports and Exports to National Income, 1911 - 1958



Source: Istituto Centrale di Statistica, Annuario Statistico Italiano, 1954 and Bolletino Mensile di Statistica, April 1955; projections for 1958 from the Italian Economic Development Program for the Four Years, 1955-58, March 1955.

Chart 2

Ratios of Italian Imports to National Income, 1911-58, and Income Growth



Source: Istituto Centrale di Statistica, *Annuario Statistico Italiano 1954* and *Bolletino Mensile di Statistica*, April 1955; projections for 1958 from the *Italian Economic Development Program for the Four Years, 1955-58*, March 1955.

through raising internal supply sources, and, accordingly, through reducing imports relative to incomes. Simultaneously, exports are to be raised through development of new products for export as well as through more efficient production of existing important export products. Private foreign investments also are expected to grow gradually, helping to close the external payments gap.

"Foreign saving" as originally formulated in the 10-year plan -- In the earlier presentation of the ten-year Plan, "foreign saving" (which was never clearly defined) apparently included not only foreign loans or direct investments but also economic aid or other governmental grants; United States military or other foreign governmental expenditures appearing directly in the Italian trade position were excluded. On this basis, "foreign saving" was estimated to total 7.2 per cent ($274 million) of total sources of Italian investment financing in 1954. Although the figure was not explicitly broken down, it may be deduced that about one-third represented U. S. economic aid, and the remainder E.P.U. credits and private direct investments and loans (including the $28.5 million Swiss bank loan to Mediocredito and the $10 million I.B.R.D. loan).1/

It may be asked what amounts of "foreign saving" can reasonably be expected from each of these sources in 1955-58, as compared with last year. Direct U.S. economic aid and E.P.U. credits will probably have become unavailable by 1958 although substitute governmental or institutional credits may partially take their place. I.B.R.D. loans (including a $70 million loan in 1955) and Swiss banking and other private credits may be expected to rise substantially. Direct U. S. and other foreign investment, too, seems likely to rise somewhat, as a result of new Italian legislation easing the withdrawal of foreign earnings and encouraging foreign participation in new Southern Italian industries.

In view of the importance, in 1954, of U. S. and E.P.U. aid, it seems difficult on balance to project much, if any, rise in available "foreign savings" (or capital inflow plus foreign grants) during the next four years, a fact clearly recognized in the new four-year Plan.

In any case, it would seem virtually impossible -- barring unusual new credits or grants -- to maintain the 1954 ratio of

1/ Other items, too, might be considered to constitute capital inflow in 1954, such as financing through (1) reduction of Italian clearing account balances by $21 million, a form of repayment of prior Italian credits; or (2) changes in short-term bank credit balances between Italian and foreign commercial banks.

"foreign saving" to total estimated investment financing requirements through 1958. If the 1954 ratio of foreign to total investment financing (7.2 per cent) were to be applied to projected gross investments in the four-year period 1955-58 (11,475 billion lire), the foreign requirements would amount to 826 billion lire ($1.3 billion), or about $325 million annually.

It would seem even more difficult to maintain the 1954 ratio over the entire 10-year period, for which gross investment requirements have been projected at 35,107 billion lire. If the same ratio of foreign to gross investment were to apply then as in 1954 (that is, 7.2 per cent), "foreign saving" would have to yield 2,528 billion lire ($4.04 billion), or about $400 million yearly.

The "saving gap" in the new four-year plan — Without explicitly stating these calculations, the four-year Plan merely assumes foreign capital to be a fairly inflexible source of new investment financing. Thus, the projected 1958 capital inflow of 80 billion lire ($128 million) is about the same as the actual 1954 inflow (with grants excluded) of 77 billion ($123 million). A new concept of a "savings gap" (amounting to about 8 per cent of projected gross investments through 1955-58) was therefore introduced; it presumably is to be met — if the foreign component of investment financing cannot be increased -- through further restraint upon internal consumption. Measures appropriate to restraint of consumers' outlays are being studied by the Italian Government but have not yet been outlined officially to the O.E.E.C. Committee of Experts.

Conclusion

The balance-of-payments limitations upon the projected internal expansion are clearly evident in these calculations. The prospects pose difficult and possibly unpleasant choices to be made. On the one hand, the Italian Government is virtually committed to the attempted creation of new job opportunities through vast new investment expenditures in "key" economic sectors. However, as gross capital formation is raised from 21 to 24 per cent of gross internal availabilities, the strain on the external balance becomes progressively heavier (assuming the foreign capital inflow to be inflexible), unless rather severe measures can be taken to restrain internal consumption. The Plan does not give any inkling as to what types of measures it has in mind, and especially whether it contemplates merely indirect (fiscal and monetary) controls or also a return to the direct controls of the war and early post-war years.

Any action designed to obliterate the real gains of the low-income groups would be especially unpopular. The political effects of creating new job opportunities might well be wiped out by any widespread introduction of wage ceilings, rationing, or other direct controls.

Another policy alternative would be to permit greater commercial bank financing of the nation's investment requirements. The resulting resurgence of inflationary pressures might restrain consumption indirectly but would also limit the rise in real incomes and production and would further strain the external balance.

In conclusion, it appears, first, that foreign investments in Italy must at least remain at the present level if the Vanoni Plan is to be realized; any substantial drop would probably make necessary such drastic internal controls as to be fatal to the fulfilment of the Plan and to the life of the government in power. Secondly, even if such foreign credits are forthcoming, the task of the monetary and fiscal authorities to maintain internal stability, by closing the "savings gap" of 8 per cent of gross investments, will probably be more difficult than at any time in the post-war period. The threat to domestic price stability will be enhanced as public and private investments rise relative to gross national product, and the evolution of policies appropriate to this situation may well determine the extent to which the Vanoni Plan may be expected to be transformed into reality.

APPENDIX TABLE 1

Italy's Foreign Trade, by Commodity Composition, 1950-54

(In billions of lire)

E X P O R T S (f.o.b.)

	1950	1951	1952	1953	1954
Agricultural products	120.2	131.9	120.3	143.8	167.9
Food products	94.3	100.8	96.3	109.5	113.5
Textiles, clothing, hides & skins	260.7	382.4	210.0	223.9	214.0
Metallurgical products	24.3	35.8	42.3	41.0	41.2
Transportation equipment	49.1	64.1	67.5	74.2	80.2
Other mechanical products	88.6	121.7	131.7	118.2	121.2
Chemical products	26.0	52.8	52.1	52.1	65.8
Refined petroleum products	17.8	29.4	60.2	91.6	113.2
Other merchandise	71.9	110.5	86.2	87.5	105.5
TOTAL	752.9	1,029.4	866.6	941.8	1,022.5

I M P O R T S (c.i.f.)

	1950	1951	1952	1953	1954
Food products	197.4	284.2	265.6	281.1	222.7
Textile, raw materials, hides	163.1	255.5	232.6	200.9	194.3
Textiles	55.7	81.0	98.0	104.4	102.0
Metals	88.8	120.8	161.2	163.3	174.5
Mechanical industry products	107.6	121.2	194.6	220.9	222.8
Miscellaneous imports	172.6	272.9	284.4	291.5	302.4
Chemical products	44.2	54.9	58.8	65.7	78.0
Lumber and paper	31.9	55.0	57.8	65.9	79.6
Others	67.3	109.0	106.8	119.1	124.3
TOTAL	925.9	1,354.5	1,459.7	1,512.7	1,500.6

Source: Livio Magnani, "24 Ore" reproduced in Economic News for Italy, Vol. 10, No. 12, March 24, 1955.

APPENDIX TABLE 2

Italian Balance of Payments on Current Account

(In billions of lire)

	1953	1954
A. Commodity trade, f.o.b.	- 462	- 399
B. Invisible items	+ 90	+ 140
Transport	- 25	---
Insurance	- 4	- 3
Foreign travel	+ 81	+ 87
Investment income	- 3	- 5
Miscellaneous	+ 41	+ 61
C. Unilateral transfers	+ 91	+ 88
Emigrants' remittances	+ 79	+ 71
Other gifts	+ 26	+ 23
Reparations	- 14	- 6
D. Total, A + B + C	- 281	- 171
E. Inter-governmental aid	+ 145	+ 150
Military orders and services	+ 68	+ 93
Grants	+ 77	+ 57
F. Total, D + E	- 136	- 21

Source: — Ministers of the Budget and Treasury, General Report on the Economic Situation in 1954, March 18, 1955.

APPENDIX TABLE 3

Values of Italian Foreign Trade
(In billions of lire)

Month	Imports		Exports		Balance	
	1953	1954	1953	1954	1953	1954
January	136.3	133.4	66.9	80.4	-69.4	-53.0
February	122.0	125.1	71.4	85.3	-51.6	-39.8
March	133.0	143.9	76.7	91.5	-56.2	-52.5
April	127.6	132.9	73.4	81.4	-54.3	-51.5
May	128.6	128.8	74.0	80.1	-54.6	-48.8
June	128.2	120.1	73.2	81.4	-55.0	-38.7
July	121.1	118.0	83.2	87.8	-37.9	-30.2
August	104.7	107.0	73.0	81.7	-31.6	-25.3
September	121.4	112.0	77.3	85.9	-44.1	-26.1
October	127.3	126.8	87.5	91.0	-39.8	-35.8
November	128.1	126.8	87.4	86.2	-40.8	-40.6
December	133.5	125.7	97.2	89.8	-35.6	-35.9
Total	1,512.7	1,500.6	941.8	1,022.5	-570.9	-478.1

Source: Association of Italian Joint Stock Companies, Italian Economic Survey (January - February 1955).

APPENDIX TABLE 4

Balance of Foreign Exchange Transactions
(In millions of dollars)

	1953	1954
Balance on merchandise account	-784.9	-747.4
Balance on invisible and financial account	+455.7	+525.9
Balance in respect to pending items	+77.7	+40.1
Total	-251.5	-181.4
Receipts from off-shore procurement	+61.3	+132.5
M.S.A. - F.O.A. disbursements	+133.1	+104.3
Changes in foreign-exchange holdings, representing:	-57.1	+55.4
Convertible currencies	+135.5	+165.9
E.P.U. transferable currencies	-180.2	-36.6
Other currencies	-12.4	-73.9

Source: Ufficio Italiano dei Cambi, as presented to Parliament in *General Report on the Economic Situation in 1954*, by Minister of the Budget and Minister for the Treasury (March 18, 1955).

APPENDIX TABLE 5

Italy's Foreign Trade by Geographic Areas,
1953 and 1954
(In millions of dollars)

	Imports		Exports		Difference	
	1953	1954	1953	1954	1953	1954
Western Hemisphere	524.8	445.4	265.7	297.4	-259.1	-148.0
United States	324.6	291.5	144.2	128.2	-180.4	-163.3
Others	200.2	153.9	121.5	169.2	-78.7	+15.3
O.E.E.C. Area	1,250.1	1,298.2	660.4	679.3	-589.7	-618.9
Sterling area	297.2	296.8	179.8	188.9	-117.4	-107.9
French franc area	167.9	197.1	103.2	130.8	-64.7	-66.3
West Germany	292.2	329.9	166.2	184.2	-126.0	-145.7
Others	492.8	474.4	211.2	175.4	-281.6	-299.0
Others	645.7	657.7	580.9	659.5	-64.8	+1.8
Sterling area outside O.E.E.C.	358.6	340.2	121.7	124.2	-236.9	-216.0
Soviet Bloc	46.6	63.0	58.1	56.6	+11.5	-6.4
All others	240.5	254.5	401.1	478.7	+160.6	+224.2
Total	2,420.6	2,401.3	1,507.0	1,636.2	-913.6	-765.1

Source: Istituto Centrale di Statistica.

APPENDIX TABLE 6

The Composition of Italian Industrial Production, 1948-54
(1938 = 100)

Industries	1948	1949	1950	1951	1952	1953	1954
Extractive (excluding coal and natural gas)	74	79	87	96	106	111	118
Food and related products	94	111	133	138	145	147	152
Textiles and clothing (including artificial fibers)	96	100	106	116	103	112	115
Wood	54	58	59	62	62	59	70
Paper	73	90	105	113	112	127	133
Metallurgical	86	85	103	134	150	149	170
Means of transportation	100	105	118	122	138	171	180
Various mechanical industries	111	128	136	149	158	154	162
Electrotechnical	103	118	116	117	117	109	108
Glass and cement	90	96	119	128	137	161	172
Chemical	93	100	113	153	147	177	215
Rubber	103	115	132	152	142	160	194
Sources of energy (elec., coal gas, coal, nat. gas, crude oil, refined petro. and coal products)	143	144	172	209	233	261	295
General indexes	99	106	121	137	142	155	170

Source: Istituto Centrale di Statistica.

APPENDIX TABLE 7

Structure of Italian Imports and Exports of Goods and Services, 1954 and 1958
(Billion lire at 1954 prices)

Sector	Exports			Imports		
	1954	1958	Index 1958 1954 = 100	1954	1958	Index 1958 1954 = 100
Iron and steel	19	20	100	122	140	115
Agriculture and food products	271	310	114	271	300	111
Petroleum and coal	117	115	100	270	340	126
Textile	211	230	109	254	310	122
Machinery	204	260	127	224	270	121
Chemical products, rubber, and artificial fibers	86	105	122	106	130	123
Other	115	140	122	254	280	111
Total commodities a/	1,023	1,180	115	1,501	1,770	118
Total commodities b/	972	1,180	121	1,375	1,620	118
Freight	150	185	123	119	140	118
Emigrants' remittances	71	90	127	--	--	--
Tourism and miscellaneous	219	240	110	68	85	125
Secondary items	59	65	110	81	85	105
Total invisible items	499	580	116	268	310	116
Grand total	1,471	1,760	120	1,643	1,930	117

a/ As reported by customs authorities.
b/ Transport and insurance costs deducted from import and export values.

Source: O.E.E.C. Council, Italian Economic Development Program -- Outline of Economic Policy for the Four Years 1955-58, March 1955.

APPENDIX TABLE 8

National Economic Balance Sheet, 1954 and 1958

	Billion lire		Per cent		Percentage increase
	1954	1958	1954	1958	1954-58
National income	10,450	12,500	92	92	20
Replacements	850	995	8	8	17
Gross national product	11,300	13,495	100	100	19
Foreign capital	80	80			00
Available internal resources	11,380	13,575	100	100	19
Gross investment	2,350	3,235	21	24	38
Consumption	9,03C	10,340	79	76	15
Imports of goods and services	1,643	1,930	15.7	15.4	17
Exports of goods and services	1,471	1,760	14.1	14.1	20

Source: O.E.E.C. Council. Italian Economic Development Program, Outline of Economic Policy for the Four Years 1955-58, March 1955.