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The Italian Stabilization of 1947:
Domestic and International Factors

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The paper examines the 1947 monetary stabilization in Italy, tracing the domestic and international political dynamics that allowed ideas and theoretical concepts developed within the Bank of Italy to be applied in a successful action to subdue spiraling inflation. The combination of events and circumstances necessary for the good outcome in a critical juncture of Italian economic history was the fruit of the efforts made by Prime Minister Alcide De Gasperi in both the domestic and international political arenas and of the collaboration he received from Luigi Einaudi and Donato Menichella. The Government's economic action in this crucial episode constitutes perhaps the first outstanding example of cooperation between politicians and experts in the annals of the Italian Republic.

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by Juan Carlos Martinez Oliva*

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1. Introduction¹

For its contribution to the restoration of stability, the monetary stabilization of 1947 stands as one of the key moments of post-war reconstruction in Italy. Although the literature has repeatedly delved into its various aspects, proposing sometimes discordant views, the more recent studies agree that the stabilization was necessary to set Italy on the virtuous path that led it within a decade to hold a prominent position among the European economies.

The debate on the stabilization has turned on the advisability of the measures that were adopted and their impact on the Italian economy. The question of the role played by the various actors involved in shaping Italy's decisions in that delicate pass remains open.

The complexity of the succession of events between the end of 1946 and September 1947, when the measures were launched, has contributed to the difficulty of reaching a definitive judgment. In the domestic political arena the period was marked by the complex dynamics of partnerships and adversarial relations between the main political blocs. In foreign policy the delicate game of economic and diplomatic relations between Italy and the United States was played. In the economic sphere, lastly, the ideas and theoretical concepts of a small group of experts, or "technicians" as they were called, were put into practice. Although these experts were the architects of the stabilization, it was the propitious interweaving of domestic and international factors that created the indispensable conditions for implementation. This, in its turn, would not have been possible without the ability the experts demonstrated in devising a suitable adjustment policy and seeing it through to completion. It thus can be argued that the stabilization of 1947 was made possible by an auspicious concurrence of events and circumstances that helped to determine the timetable and procedures of policy action.

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Italian inflation was spiraling out of control as early as the end of 1946, in a tense phase of national politics dominated by antagonism between the Christian Democrats and the parties of the left. The severe shortage of goods and financial resources made it seem unlikely that the crisis could be solved. The monetary erosion intensified the very same climate of discouragement and uncertainty that had spawned it. To make matters worse, economic conditions in Europe remained broadly critical, aggravated by the paralysis of intra-European trade and payments. In addition, the programmes of international aid on which Italy had depended were about to run out and there were no other ways out of a crisis that seemed destined to go on and on.

In the incipient cold war environment, Alcide De Gasperi clearly perceived that America was worried about the political situation in Italy. He returned from an official visit to the United States in January 1947 with his position strengthened by the start of a constructive dialogue between the two countries. In the following months, while Italy's financial crisis deepened, De Gasperi assiduously cultivated contacts with the American authorities in order to preserve and reinforce that tenuous link and ultimately to obtain the financial support needed for economic stabilization and reconstruction in Italy. During this phase, however, the Americans maintained a prudent stance, absorbed as they were in the shaping of a global strategy, the Truman Doctrine, that eventually gave birth to the Marshall Plan. For the time being, De Gasperi's efforts to obtain economic concessions from the United States obtained little more than generic expressions of solidarity and vague promises of assistance. Yet his close contacts with the Americans reinforced De Gasperi politically, putting him in a position to proceed with the ambitious scheme of forming a new government that did exclude the parties of the left and included a group of experts led by Luigi Einaudi. The formation of De Gasperi's fourth cabinet at the end of May 1947 helped to restore the credibility of the Executive's action, allowing it to adopt the anti-inflationary strategy known as the "Einaudi line".

In December 1946 the Bank of Italy had begun working on a new mechanism to regulate the relationship between banks' assets and deposits. The project, drafted under the leadership of Donato Menichella, who had been appointed Bank's Director General in April 1946, would be the linchpin of the action against inflation. In January, upon his return from the United States, where he had participated in De Gasperi's mission, Menichella briefed Italian bankers on the mission's results. He pointed out that the loan

granted by the Export-Import Bank of the United States showed that the US was committed to Italy and underscored the need for a rapid stabilization. Italian banks would have to do their part by adopting a lending policy that would not facilitate an excessive building up of inventories. Although on 15 February Luigi Einaudi, the Governor of the Bank of Italy, submitted a formal proposal for amending the rules governing compulsory reserves to Treasury Minister Pietro Campilli, in the following months every manner of obstacle arose to the launch of a resolute, coherent plan of action, and so the matter remained pending.

Meanwhile, De Gasperi kept up his campaign to persuade the Americans, playing on their fear that the economic crisis could bring the left to power in Rome. In a radio broadcast on April 28, announcing that the economic situation was no longer sustainable, he seized the occasion to signal the need for a cabinet shuffle. The Americans were quick to pick up the message and began to offer De Gasperi stronger encouragement and firmer promises. In the following weeks De Gasperi's plan was accomplished.

The assistance Menichella lent to De Gasperi with Einaudi's blessings figured prominently in shaping the stabilization of 1947. De Gasperi's keen awareness of the difficulty of the situation and the identification of the steps that needed to be taken were the result of this important instance of cooperation between politicians and experts. De Gasperi, for his part, knew how to move in the right direction, navigating amidst the obstacles and cross-currents of Italy's domestic political situation and foreign relations.

The United States never intervened directly in the stabilization, systematically treating economic adjustment as a less vital matter than the victory of a moderate political coalition. However, De Gasperi effectively exploited the strong American interest in seeing the left excluded from Italian Government in order to gain backing that bolstered his political position and allowed him to launch the necessary measures for economic adjustment.

2. The outbreak of inflation and its causes

Prices rose steeply in the areas that were liberated by the advancing Allies following the armistice of September 1943. In northern Italy they doubled between the end of 1944 and the months just after national liberation in April 1945.² Between the second half of 1945 and the first half of 1946, wholesale prices rose to more than 20 times above the level of 1938, with a pronounced dispersion of the increases from sector to sector. The consequences of the military operations and the high cost or material impossibility of transport helped to split the country into rigidly closed markets. A black market of increasingly alarming size developed alongside the official market.³ Prices stabilized temporarily in the early months of 1946 and even diminished slightly, but inflation then regained pace and continued to spiral upwards throughout the rest of the year. In the final part of the year wholesale and consumer prices rose at a twelve-month rate of about 60 per cent higher, and they maintained a comparable pace for most of 1947. The new surge of inflation came at a particularly delicate moment for Italy, which was preparing to tackle the arduous work of reconstruction. Rendering the country's economic outlook still more precarious were the predictable termination of international aid, the shortage of foreign exchange reserves, and the paralysis of intra-European trade and payments. In addition, the time was approaching to ratify the peace treaty, whose penalizing clauses Italy had been forced to accede to with no possibility of negotiation.⁴

The wave of inflation had multiple causes, investigated in a wealth of studies. In general, it can be said to have been caused by the large imbalance created during the war and in the immediate post-war years between the liquidity created by the market and the banking system on the one hand and the resources available for production on the other.⁵ Various circumstances aggravated this imbalance, including the subsidized

² See the paper by the Bank of Italy's Research Department: "Andamento dei prezzi in Italia dalla liberazione ad oggi", Servizio studi economici, Rome, Ottobre 1948, in Ricossa and Tuccimei (1992), p. 551.

³ Banca d'Italia, *Relazione per l'anno 1945*, p. 118 ff.

⁴ See Einaudi's dismayed references in the section headed "The economic clauses of the Peace Treaty" of the Bank of Italy's Annual Report for 1946 (English version), p. 8 ff.

⁵ See the brief but effective analysis in Menichella (1956), also published in Cotula, Gelsomino and Gigliobianco (1997), Doc. 73.

price of bread, which, given the sharp increase in the prices of cereals on international markets, provoked enormous losses on wheat stockpiling operations. These losses burdened the government budget, causing an increase in the Treasury's debt with the Bank of Italy and fueling inflationary expectations that triggered the race to hoard real goods of every kind. There were purchases of excessive quantities of raw materials, semi-processed goods and finished products by numerous firms and, more in general, a buying up of convertible foreign currencies, precious metals, industrial securities, property and other hedge goods. The purchases of foreign products depleted the already low foreign currency reserves to the point of exhausting them.⁶

An outstanding official, and later governor, of Bank of Italy, Paolo Baffi, looking back on that difficult period, remarked that in the first nine months of 1947 “the expansion of business loans, fueled by drawing down banks’ deposits with the central bank, became the leading cause of inflation.”⁷ Baffi confessed that this observation spurred him to “rummage through his memory and the papers” to ascertain whether he and his collaborators in Bank of Italy’s Research Department had come up with some “innovative, bold” proposal for timely use of the administrative and market instruments of monetary control: the compulsory reserves, interest rates, the exchange rate; a proposal going beyond the approach formulated by Einaudi in the “Concluding Remarks” to the Bank’s Annual Report for 1946, which was based on the proposition that the central bank has done its duty when it has remained *neutral* in managing the non-obligatory channels of monetary creation and destruction, even when the obligatory channels are having an expansionary effect”.⁸ Baffi admitted that he had found no proposal of the kind, adding that he had a feeling sense of “guilt and remorse for not having made one”.

As Baffi observed, the Annual Report for 1946 suggested that the use of the excess liquidity that the banks had accumulated in wartime needed to be accepted, that there was no other course. Nor does it appear that Einaudi ever thought about freezing

⁶An unconventional thesis, proposed by Vera Lutz, is that the inflationary process was the result “of a painful but conscious decision to avoid a monetary reform that would have ended up by immobilizing the economy and freezing the public debt”. Masera (2005), p. xv. In this view, the inflation tax was a less costly way of eliminating the excess purchasing power and adjusting the public finances. For a discussion, see Masera (1983).

⁷ Baffi (1990a), p. 70.

⁸ Baffi (1990b), p. 90.

deposits.⁹ And yet a consistent adjustment plan based on the issue of loans, spending curbs and the reorganization of the tax system could not ignore the contribution of the banking system's liquidity to stoking inflation. As Menichella would say several years later, adjustment of this kind "necessarily had to be accompanied by resolute action to sterilize an important part of banks' liquidity, like the measures taken in the summer of 1947 with the reorganization of the system of compulsory reserves and the determined, inflexible application of the new rules introduced in that system".¹⁰ It was Menichella himself who launched the "innovative and bold" proposal on the occasion of the meeting of the Italian Bankers' Association (ABI) in 18 January 1947, when he pointedly warned the banks to control the use of loans and threatened them, otherwise, with the employment of "means not customarily used in our country".¹¹

3. Menichella and the Americans

In May 1946 Menichella had begun to treat the issue of reparations in the context of the peace conference.¹² His active cooperation with the Government had been praised by De Gasperi in the Constituent Assembly on 18 September.¹³ As a member of the economic section of the Italian delegation, during the peace conference Menichella had insisted on the connection between the worsening of Italy's economic situation and the victors' intransigence about the burdens they were intending to impose on the country. What Baffi called the "free-and-easy way" in which Menichella played the

⁹ Baffi (1990a), p. 70.

¹⁰ Menichella (1956), p. 15.

¹¹ De Cecco and Giavazzi (1993) repeatedly stress how strongly the credit controls that were eventually adopted to fight inflation ran counter to the grain of Einaudi's economic liberalism. Omiccioli (2000), p. 53, notes that "... Menichella's role in this slow, laborious process of change was much more important than is usually believed, not least because of the man's legendary reserve". More recently, Gigliobianco (2006), p. 232 ff, on the basis of close scrutiny of the documents, corroborates the thesis that Menichella was the engine of the reform. The facts therefore contradict the traditional depiction of a laissez-faire revolution in Italy at the end of the 1940s. On this point, see the remarks by Ruffolo (1974), p. 670.

¹² See Menichella to Einaudi, Rome, 21 May 1946, FLE, Donato Menichella, b. 2, autograph manuscript. Published in Cotula, Gelsomino and Gigliobianco (1997), pp. 189-190. It is worth recalling that Menichella had already been dealing with the Americans for more than two years, starting from his assisting the Allied Control Commission to understand the origins and functions of IRI. In this regard, see the testimony of Andrew Kamarck in Banca d'Italia (1986), pp. 37-44. Kamarck recalls (p. 41) how he and other American officials gained confidence in the integrity and competence of the Italian officials with whom they worked during the Allied occupation.

card of domestic collapse during the negotiations concealed both his evident understanding of his countrymen's mentality and his insight into that of the Allies.

On 2 September Epicarmo Corbino, Minister of the Treasury since 10 December 1945, announced his resignation.¹⁴ The ministry was first offered to Menichella and then, on 18 December, entrusted to Giuseppe Bertone.¹⁵ With Einaudi taking the initiative, in these circumstances a new phase opened in Menichella's cooperation with De Gasperi: the drafting of an emergency economic programme, justified by the country's grave situation.¹⁶

At the start of October Bertone launched a long-term "Reconstruction Loan". The operation soon proved a failure. Investors in the issue drew down their bank accounts, prompting the banks to draw make large withdrawals from their deposits with the Bank of Italy and to increase their recourse to central bank advances collateralized by the new loan. In essence, the effects of the loan were not unlike those that would have come from printing new banknotes directly.¹⁷

The polarized results of the local elections of 10 November in six of Italy's largest cities exacerbated the political crisis. The far right, represented by Uomo Qualunque, and the left, especially the Communists, advanced at the expense of the Christian Democrats. Possibly, the Christian Democrats paid for the difficulties of food provisioning caused by the conclusion of the UNRRA programme, but their poor showing more generally reflected their lack of support in financial and industrial circles, the academic world and the civil service. While De Gasperi came under fire from many

¹³ Baffi (1990b), p. 83.

¹⁴ Corbino, politically isolated, was discouraged by the practical difficulties he had been forced to contend with owing, not least, to the fact that the Finance Minister was Mauro Scoccimarro, a Communist. Riccardo Lombardi likened the situation to a tandem bicycle with the two cyclists pedaling in opposite direction. See Ricossa and Tuccimei (1992), p. 37.

¹⁵ Menichella turned down the position. The events are reported in Nenni's diaries, cited in Ricossa and Tuccimei (1992), p. 44.

¹⁶ Einaudi wrote as follows: "Dear Mr President, Dr Menichella has informed me of the results of the talks held at the Committee of Ministers to draft an economic and financial programme for immediate implementation. Every person who is anxious to save the country in the grave present circumstances cannot but agree on that programme. Perhaps the collaboration between politicians and the eminent expert whom I have had the good fortune to have at my side can continue in the future with equal benefits to the country." FLE, I,2 De Gasperi. Typewritten copy. Published in Ricossa and Tuccimei (1992), pp. 352-353. Concerning Menichella's work with Einaudi on exchange rate policy, see Asso (1997).

¹⁷ See Foa (1949), pp. 96-98.

quarters, including his own party, industry and the Vatican, the Christian Democrats began to reconsider the question of their relations with their Government allies.¹⁸

On 5 January 1947 De Gasperi began his famous visit to the United States, in response to a formal invitation from the American government.¹⁹ During his meetings there, a financially modest but politically significant \$100 million Eximbank loan to Italy was negotiated.²⁰ According to De Gasperi, public opinion would view the loan as a vote of confidence in the Italian Government.²¹ The negotiations were skillfully conducted by Menichella, who dealt with William McChesney Martin, then president of the Eximbank,²² and William Clayton, Under Secretary of State for Economic Affairs.²³

The discussions with Martin were neither easy nor brief, “owing to [his] seriousness in demanding accurate statistical documentation on the country’s condition”.²⁴ In the talks with Clayton, Menichella did not fail to make shrewd reference to the positive psychological impact that the showing of confidence by an independent American institution would have on public opinion. The positive results of the mission strengthened De Gasperi’s reputation in Italy. However, its effects extended beyond this, for De Gasperi came back with useful information on the incipient change of course in American foreign policy that would lead to the Cold War and its train of

¹⁸ Writing to the Christian Democratic party’s national and local leaders a few days after the vote, the party’s new national secretary, Attilio Piccioni, stated: “The three-party coalition has not been collaboration but forced cohabitation.” Gambino points out that this became the slogan summing up the party’s new orientation. See Gambino (1975), p. 259.

¹⁹ There are at least two versions of the origins of the visit. Gambino (1975), p. 261 reconciles them by suggesting that De Gasperi had already asked Truman for a meeting in the autumn. To avoid extending an official invitation before the peace treaty was ratified, Truman supposedly suggested having the invitation come from a private institution and only agreed later to send an official invitation in the face of De Gasperi’s unwillingness to accept this arrangement. In the same vein, Ortona suggests that both versions have a basis in fact and that the outcome was due to a “fortunate ‘alignment of the stars’”. Ortona (1984), p. 175.

²⁰ For an analysis of the loan and its use, see Segreto (2000).

²¹ Alberto Tarchiani, the Italian ambassador in Washington, was well aware of the loan’s political importance for Italy. Years later, Pietro Campilli told Antonio Gambino that Tarchiani, faced with the Italian delegations’ misgivings about the restrictive clauses imposed by the Eximbank, cut the discussion short by almost shouting: “The important thing is that they have given it to us; all the rest does not count.” See Gambino (1975). Egidio Ortona, at the time financial attaché to the embassy, confirms the episode. Although the loan was small and could not be used immediately, he recounts, it became “the fulcrum of De Gasperi’s mission”. Ortona (1984), p. 185.

²² At the Eximbank Martin was considered a rigorous banker who paid due attention to the soundness and security of transactions. For this reason he often found himself in conflict with the State Department, which was in favour of granting loans on political grounds. After a stint at the Treasury, Martin served as Chairman of the US Federal Reserve from 2 April 1951 to 31 January 1970.

²³ For a detailed account of the negotiations at the State Department, see FRUS, 1947, pp. 848-849. Guido Carli, who assisted Menichella in the talks, discusses them in his memoirs. See Carli (1993), pp. 57-60.

political and economic consequences for Europe.²⁵ Lastly, according to personal testimony, the visit made Menichella a permanent Atlanticist, both out of gratitude and owing to his conviction that the United States could play a pivotal role in Italian economic reconstruction.²⁶

Upon his return to Italy, on 18 January Menichella gave a report on the mission's chief results to Italian banking leaders in a meeting at ABI. In particular, he explained that the Eximbank loan would make it possible to import approximately €100 million worth of raw materials from the United States, or, assuming that imported inputs made up about 40 per cent of the value of Italian exports, to increase exports by about €250 million. "It is therefore absolutely necessary to try to export as much as possible, because that, and that alone, will give us the wherewithal to live," said Menichella. "We must not forget that aid in the form of relief is non-recurring, and it is our duty to consider in timely fashion what the situation will be in the coming years, when we won't be able to find such abundant aid."²⁷ By taking the export route, which would require "an intense labour and organizational effort," Italy would be able to restore its balance of payments to equilibrium. The banks were being asked to make their contribution to monetary stability. In granting loans, they would have to adhere to "a line of conduct that does not favour an excessive buildup of inventories like that recently seen. In fact, if a watch is not kept on the formation of inventories, inventory build-up for speculative purposes provokes a rise in wholesale and retail prices; the increase in the cost of living has direct repercussions on wages, and successive slides take the stabilization of the currency to a lower level. This is a path that can have no end".²⁸ A sharp warning followed: "So far the Bank of Italy has not considered it

²⁴ Carli (1993), p. 59.

²⁵ See Di Nolfo (1986), pp. 236-238, who remarks that De Gasperi's exploring the terrain in Washington clearly disproves the argument that the purpose of the mission to America was merely to sign "subaltern agreements".

²⁶ We have the significant testimony of Menichella's son, Vincenzo, on the mission of January 1947: "It was another decisive moment of his life: the two [De Gasperi and Menichella] returned to Italy not only with prestige but with money too ... and this was the beginning of a long collaboration. The trip also forged the only political position that we ever saw [my father] take: the staunchest Atlanticism. Factors in this was his gratitude to America, his conviction that the country could save itself only with Atlantic and European cooperation, and the enthusiastic, moving reception from ... the Italian-Americans". See Banca d'Italia (1986), p. 174.

²⁷ "Discorso all'assemblea dell'Associazione Bancaria Italiana", in: Cotula, Gelsomino and Gigliobianco (1997), p. 218.

²⁸ "Discorso all'assemblea dell'Associazione Bancaria Italiana", in: Cotula, Gelsomino and Gigliobianco (1997), p. 220.

necessary to adopt unusually severe criteria. However [...] if insufficient vigilance on the buildup of inventories induced it to act, it could adopt means not customarily used in our country, such as an obligation for the banks to deposit their liquid funds.”

As Baffi observed, for the first time the Bank of Italy was setting its legislative mandate to protect the solvency of individual banks in the macroeconomic context of control of the total volume of credit.²⁹ It is worth noting that in seeking to bind the banks to the objective of stabilization in view of the obligation contracted with the United States, Menichella became the protagonist of what was certainly the first important attempt to create an external commitment of Italy to economic adjustment in the post-war period.

Several days later the main banks were sent a reminder to comply with the provisions in force, which required that the amount of their deposits in excess of thirty times their capital be deposited with the Bank of Italy or invested in government securities. But, as Baffi wrote, “this was a hesitant reminder, since the ratio of capital to deposits differed greatly from bank to bank and capital had not grown at the same pace as deposits; the tie to capital thus rendered, on average, too large a share of deposits unavailable”.³⁰ Accordingly, soon thereafter the Bank of Italy proposed to the Finance Ministry and the Treasury that the unavailable share be reduced from 100 to 40 per cent of the excess of deposits, but that the amount in excess be calculated with respect to ten times the amount of capital rather than thirty.³¹ The plan, which, Baffi recalled, “reflected ideas that had ripened and been put on paper in the final months of 1946,” was followed by a formal communication from the Bank to the Treasury.³² After a lengthy consultation with the banks, which ultimately endorsed the formal arrangements

²⁹ Baffi (1990b), p. 84.

³⁰ Baffi (1990b), p. 85. A memorandum, presumably prepared by the Economic Research Department, states: “Governor Einaudi was the first to know that in many cases it would have been practically impossible to apply the rule, but the reference to it – since he lacked powers to issue other rules more in keeping with reality – was intended to signify a strong appeal to the banks to refrain from following a policy of offering abundant credit facilities. At the same time he was working for a modification of the rule.” *Memoria della Banca d'Italia sulla politica delle riserve obbligatorie*, ASBI, Baffi-studi, lavori e segnalazioni, scat. 8. Published in Ricossa and Tuccimei (1992), pp. 558-562.

³¹ Letter of the Bank of Italy to the Minister of Finance and the Treasury, Pietro Campilli, ASBI, *Vigilanza*, cart. 231, published in Ricossa and Tuccimei (1992), pp. 414-417.

³² Letter of Governor Einaudi to the Minister of Finance and the Treasury, Pietro Campilli, ASBI, *Vigilanza*, cart. 231. Published in Ricossa and Tuccimei (1992), pp. 414-418.

of the system proposed by the Bank of Italy, discussion turned to the creation of the Interministerial Committee for Credit and Savings, which was established in July.³³

4. Worries in Washington

On the other side of the Atlantic, the results of the Italian local elections of 10 November stirred fear that the advance of the left portended its victory in general elections, by then considered imminent. On 21 November Walter Dowling, head of the Italian desk in the Office for European Affairs of the State Department, wrote to the Office's Director, Freeman Matthews, that the results of the November local vote ought to be read as a sign of discouragement in Italian public opinion. Having depended on the United States to help Italy out of the post-war crisis, said Matthews, the Italians now felt they had been let down. This had shaken pro-American sentiment far more than any bitterness over the terms of the peace treaty or Communist propaganda. According to Dowling, if the intention was to oppose the Communist advance in Italy, timely action had to be taken to provide "moral encouragement and considerable material aid".

To appreciate Dowling's position, it is necessary to bear in mind that in July he had been one of the few at the State Department who had voiced the view that the terms of the peace treaty could turn Italian public opinion against America.³⁴ In contrast with the hard line taken by the then-Secretary of State, James F. Byrnes, Dowling had insisted that a softening of the treaty was needed to avert the risk of spreading anti-American sentiment in Italy, a line of reasoning not unlike that taken by Menichella in

³³ Baffi recalled: "... the Minister wanted to hear the bankers, calling them to special meetings that Einaudi and Menichella took part in, and it was not until early April that the Bankers' Association was able to convey the thinking of the banking industry, which was in favour of a less severe stocks-flows system but one whose structure was not unlike that later adopted in August." Baffi (1990b), p. 85.

³⁴ Luigi Einaudi transmitted this mood in the section of the Bank of Italy's Annual Report headed "The economic clauses of the Peace Treaty", expressing bitter disappointment for the onerous conditions imposed on Italy and acknowledging the role of the United States and other nations in mitigating the effects of these conditions: "Where the scales just, when merits and demerits were weighed during the compilation of the peace treaty? Were they, after the promises of the Atlantic Chart and the many authoritative recognitions of the value of our cobelligerance? A perusal of the terms imposed upon us shows that the answer is no. I refer to the terms of the treaty itself, excluding the subsequent attitudes and facts of a Christian and gallant nature, especially on the part of the United States [...] to whom our hearty gratitude is due". Banca d'Italia (1947), pp. 27-28.

the discussions on war reparations.³⁵ In his new attempt to strengthen the bonds between the United States and Italy, Dowling refrained for now from playing a card that would have left the State Department unimpressed and, seizing the opportunity offered by the Italian elections, employed a more direct, effective argument instead.³⁶

As the first steps in the strategy he proposed, Dowling suggested the following: 1) an Eximbank loan of \$150 million “now, not nex week or next month”; 2) American support for Italian membership of UNESCO; 3) the abolition of the Allied Commission by 1 December; 4) a statement of America’s desire to withdraw its troops from Italy as soon as possible and a drastic reduction in requisitions of buildings; 5) an invitation to De Gasperi to pay an official visit to the United States after the turn of the year; 6) presentation to Congress in January of a well-publicized relief programme for Italy and other countries. In conclusion, Dowling warned that if the United States failed to make a very visible show of interest in Italy, the national elections in the spring would result in a Communist-Socialist regime.³⁷

In a dispatch to the Secretary of State on 11 December, the American embassy described economic conditions in Italy as alarming, “characterized by continual crises and contradictions”. While industrial production and exports were improving, shortages of wheat and coal persisted and inflation had gained pace. Moreover, there was a general lack of confidence in the Government’s policies and a prevailing climate of uncertainty, which not even the impending ratification of the peace treaty and expectations of additional foreign aid had helped to mitigate.³⁸

The monetary and foreign exchange situation continued to deteriorate in the following months. In March Einaudi told a prominent American politician, former Minnesota Governor Harold Stassen, in Italy on an official visit, that if Italy’s budget

³⁵See Dowling’s memorandum of 24 July 1946, FRUS (1946), pp. 15-16. One can only agree with Poggiolini (1990), p. 652, that “Dowling’s evaluation is more acute and less psychoanalytical than it must have seemed to his contemporaries”.

³⁶ Aga-Rossi remarks that “despite the widely held thesis in Italian historiography that De Gasperi had backing from the US, in reality there was protracted inaction on the part of the Americans” throughout 1946. Aga-Rossi (2000), p. 45.

³⁷ Dowling to Matthews, 21 November 1946, 865.00/11-2146, in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6913. Notes in pencil on the document show that Freeman Matthews approved more or less all the points, with reservations only about the possibility of disbursing the loan immediately and an evident desire to see De Gasperi’s visit moved up. On the latter question, Matthews’s note reads, “I hoped he would come earlier”.

³⁸ Key to Marshall, 11 December 1946, 865.50/10-1146; in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6938.

deficit for 1947 overshoot the forecast of 600 billion lire it would be hard to bring down inflation.³⁹

At this point the United States began to harbour doubts about the Government's ability to control the situation. On 4 April 1947, seeking to reassure an increasingly skeptical State Department, Tarchiani sent Clayton a speech that Finance Minister Campilli had made to the Constituent Assembly a few days earlier.⁴⁰ The speech did not produce the desired effect, for several days later the American ambassador in Rome, James Dunn, informed Marshall about recent attacks on the Campilli's economic policy, adding that the criticisms that were likely to be leveled against the Italian Government's fiscal programme could lead to a cabinet crisis. Dunn reported that the general feeling was that the Government's weakness and procrastination had aggravated the financial situation. He also signaled the possibility that protests and strikes inspired by the left-wing parties could set off a new round of inflation and further embitter relations between the Communists and Christian Democrats.⁴¹

The Americans had good reason to doubt the Government's credibility, seeing that on 4 April it had announced a 14-point economic programme consisting of little more than vague declarations open to every possible interpretation and with little real substance.⁴² In Rome, Ambassador Tarchiani warned De Gasperi that American confidence in Italy was waning. Tarchiani argued that the Italian Government "had to be homogeneous, efficient and explicitly committed to following a policy that coupled dignity and independence with fidelity to the common directives so often proclaimed with our friends abroad".⁴³

Instead, a meeting between Campilli and the American embassy's financial attaché, Henry Tasca, soon strengthened the embassy's worst doubts about the confused

³⁹ Dunn to Marshall, 12 March 1947, OASIA 67A1804; in NACP; RG 59; Italy: Economic and Financial, Vol. 1; Country Files, 1934-52; box 16.

⁴⁰ In response to the questions Clayton had posed concerning the steps taken by the government to deal with the domestic financial situation, Tarchiani wrote that he was sending the text of a speech by the Finance Minister that clearly demonstrated the government's determination in adopting the necessary stabilization measures. Tarchiani to Clayton, 4 April, 1947, 865.51/4-447; in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6944.

⁴¹ Dunn to Marshall, 9 April 1947, 865.00/4-947; in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6914A.

⁴² Suffice it to mention that the sole measure actually introduced simultaneously with the announcement of the programme was the increase in the price of bread, up to then subsidized by the Treasury. See Daneo (1975), p. 216.

⁴³ Quoted in Di Nolfo (1986), p. 239.

state of the Italian Government. According to the Ambassador Dunn's report, Campilli had summoned Tasca in order to signal his request to the American authorities for the immediate transfer to the Italian Treasury of all lira funds held by the Allied occupying forces, particularly those taken over from the German military, thereby giving the impression that the domestic financial situation was desperate and on the brink of breakdown. During the meeting Campilli also hinted that the Christian Democrats, under heavy attack from all quarters as the others sought to pin the blame on them for the economic situation, might leave the Government or, at the most, take a back seat in it. Referring to the gravity of the economic situation, particularly the rise in prices and collapse of confidence, Campilli had asked Tasca about the possibilities of obtaining additional aid, perhaps through an extraordinary appeal. The answer Campilli received was less than encouraging. Only Congress could appropriate the funds, Tasca told him, and the administration had no plans to submit such a request to it. Tasca added that he was not convinced that foreign aid would solve the problem of inflation and confidence, since Campilli's financial programme lacked a policy of wage control. Campilli acknowledged the validity of this point and added, less than convincingly, that he was endeavouring to work out an agreement in this sense. "In summary," Dunn reported, "Minister Campilli left the following impressions: (A) The Italian Government has lost control over the lira. (B) He is desperately seeking some extraordinary remedy which might miraculously restore the confidence of the people in the future of the lira. (C) The Democratic Christians either passing to the opposition or more probably taking a minor role in a new government and using the Communist tactics of being in the government opposition at one and the same time."⁴⁴ There was enough here to cause concern at the State Department. On 25 April the Acting Secretary of State, Dean Acheson, notified Dunn that the Department was analyzing "Italy's political and economic situation, [the] impact of economic assistance already given, and magnitude and nature [of] additional economic assistance required to achieve long-run economic stability if combined with appropriate changes [in] Italy's economic policies". Acheson asked the embassy for a detailed report on the economic situation and the Government's economy policy.⁴⁵

⁴⁴ Dunn to Marshall, 22 April 1947, OASIA 67A1804; in NACP; RG 56; Italy: Economic and Financial, Vol. 1; Country Files, 1934-52; box 15.

⁴⁵ See FRUS, 1947, pp. 886-887. Acheson asks that the material be delivered by 20 May, with preliminary information to be telegraphed by 7 May.

On 7 May Dunn sent Tasca to Washington with the requested report and a cover letter.⁴⁶ The report, drafted by Tasca himself and titled “Current Economic and Financial Policies of the Italian Government”, asserted that Italy’s economic and financial position reflected “the lack of confidence on the part of strategic economic groups in the ability of the Government to direct and control the country.” It traced the “prevailing forces of financial and economic disintegration” to four main factors: the lack of internal consistency in the composition of the Government, with the Liberals in command of expenditure and the Communists of revenue, and both parties seeking to outmanoeuvre the other with respect to financial policy;⁴⁷ political agitation, used by the Communists to gain wider support among the masses; lack of public order, which provoked hoarding, speculation and capital flight; and the Government’s “technical incompetency”, demonstrated, for example, by the Reconstruction Loan episode, the ineffective policy of taxation pursued by the Communist Finance Minister, and the establishment by the current Treasury and Finance Minister, Campilli, of a committee to study the ways and means of establishing effective credit control. On the last-mentioned point in particular, however, the document contained a fundamental error, when it observed: “In view of the fact that this problem has been under study for many years and in view of the fact that under the 1936 banking act an effective system of credit control has been established the matter did not require study at this time. Informed business and financial circles can only believe that the Government is either incompetent or acting in bad faith.” In the face of so peremptory an affirmation, one might doubt the competence or good faith of the “well-informed circles” that were the sources of Tasca’s information. Although it was evident to Tasca that the authorities had lost control of credit and that the banks were providing unconditional financing of inventory holdings and other forms of speculative activities which had accentuated inflationary pressures, the suggested remedy – to require banks to transmit frequent periodic reports to the Government giving detailed data on their lending – failed utterly to come to grips with the reality of the situation. At all events, there is good reason to

⁴⁶ Dunn to Marshall, Rome, 7 May 1947, Secret, FRUS (1947), pp. 895-897.

⁴⁷ The reference is to, respectively, Epicarmo Corbino, Minister of the Treasury, and Mauro Scoccimarro, Minister of Finance, in the Parri Government (June-December 1945) and the first two cabinets headed by De Gasperi (December 1945-January 1947). See note 14.

doubt that the State Department agreed with Tasca's diagnosis.⁴⁸ This is not the place to dwell on the list of rules and regulations that covered practically every aspect of the Italian economy. Suffice it to say that Tasca's economic programme coincided largely with the one formulated in the same days by the Confederation of Italian Industry (Confindustria), with which Tasca surely was in communication.⁴⁹

5. De Gasperi makes his move

On 20 January 1947 De Gasperi resigned and by 2 February he had formed a new government, his third, in which Communists no longer headed economic ministries.⁵⁰ Like its predecessor, however, the new government's life was hamstrung by internal dissension over economic policy and was able neither to take vigorous action against inflation nor to inaugurate a policy of planning and structural reform.⁵¹ On 28 April, at the peak of the Government's difficulties in coping with the situation, the Prime Minister delivered a dramatic appeal to the country over the radio. Fraught with suggestive images and appeals to the sense of responsibility of each and all, the speech was closely scrutinized by the American embassy in Rome. In reporting its contents to Marshall, Dunn naturally gave prominence to the passage in which De Gasperi had alluded to the possibility of broadening the Government's base, quoting it in full: "If the representatives of all the honest interests and of all the active economic conceptions were in the Government and, aware of the extreme seriousness of the hour, they would contribute toward the salvation of the Country, the hard-working public would regain that sense of security that means confidence, and foreign countries would recognize that our solidarity can be counted on. This is the worry that has tormented me since I returned from America."⁵² Dunn also passed along the reports in the press to the effect that De Gasperi had delivered a similar message during a meeting of the Council

⁴⁸ Harper has argued that Tasca's analysis aroused "skepticism" in Washington, and that some probably considered it "politically unsophisticated and practically inadequate". See Harper (1981), pp. 419-421.

⁴⁹ See the letter from Costa to De Gasperi of 14 April 1947, with notes concerning the possible economic policy of the Government. Costa (1980), pp. 385-393.

⁵⁰ The Treasury and the Finance Ministry were combined into one and assigned to Pietro Campilli, a Christian Democrat.

⁵¹ See Castronovo (1986), pp. 102-103.

of Ministers. According to these accounts, the Prime Minister, while denying any desire to open a cabinet crisis, had indicated that he felt “it would not be a bad thing” if the Government could count on a broad base of support and avail itself of the services of experts or other political leaders elected to the Constituent Assembly.

The same day, De Gasperi, using back channels, sent Truman a letter describing Italy’s severe problems and announcing a probable cabinet reshuffle.⁵³ “My country,” wrote De Gasperi, “is for various circumstances going through a crisis of confidence leading to devaluation of the currency. The Government I preside is making every effort to adjust the government budget, encourage production and maintain order.” Mentioning his attempt “to give the Government a broader parliamentary base, ensuring greater influence for the parties that want the stability and freedom of the democratic regime in Italy”, De Gasperi added: “We will try with every means to help ourselves, but it is all too evident that our resources are insufficient.”

With this cautious and skillful step, De Gasperi was seeking to reinforce, at the highest level, the tenuous agreements reached during the mission in January, which the letter conspicuously mentioned repeatedly. To the same end, De Gasperi expressed a desire to meet with William Clayton, the Italian delegates’ most sympathetic and responsive American interlocutor in January.

De Gasperi’s letter was followed shortly by the drafting of a memorandum in Washington with a concise review of the political and economic situation in Italy and a list of policy recommendations.⁵⁴ The document blamed the Italian Government’s difficulties on Communist subversion, directed and generously financed by Moscow

⁵² Dunn to Marshall, 3 May 1947, 865.00/5-347; in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6913. The original text is in ILS, Fondo Francesco Bartolotta, vol. X, pp. 914-922.

⁵³ The letter, together with one addressed to Cardinal Spellman, “was delivered by hand by Prime Minister De Gasperi to Msgr. McGruber, who was leaving for America”. See ILS, Fondo Francesco Bartolotta, Vol. X, pp. 899-902.

⁵⁴ Unsigned typescript, 1 May 1947, 865.00/5-147; in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6914A. The document echoes the views of Dowling, who advocated giving friendly encouragement to Italy in order to steer Italian public opinion towards anti-Communist, pro-American positions. Supporting the supposition that Dowling was the author is the expression of displeasure for the fact that Ivan Matteo Lombardo would head the Italian delegation visiting the United States to negotiate the return of Italian assets frozen in the United States and, possibly, new loans: Lombardo’s appointment had been worked out with the prominent Socialist Pietro Nenni when the latter was Foreign Minister and “unfortunately it could not be changed”. Further on, it states that the left-wing parties’ posture of “friendship” with the United States was purely an electoral calculation, and that their links with Moscow remained unchanged. Similar remarks of concern over the prospect of Nenni’s participating in the January mission are found in the Dowling’s letter to Matthews of 21 November, cited earlier.

and supported by “capable, clever, highly-paid, full-time propagandists”. Accordingly, it recommended repeated official US proclamations in favour of a democratic, non-extremist government in Italy, in line with the strategy launched with Truman’s declaration in favour of Greece and Turkey.⁵⁵ Insisting that American financial aid should not be made contingent upon the prior solution of main problems, such as balancing the budget and rooting out subversion, the memorandum argued that these results could only be achieved with strong moral and material support from abroad; failing such assistance, the parties of the leftist bloc might well win at the polls in October. The memorandum then indicated the possibility that a cabinet reshuffle might dilute the presence of the far left in the Italian Government and, accepting the essence of De Gasperi’s appeals, stressed that the success of such an attempt would largely depend on the availability of American aid to Italy.

The memorandum’s final recommendations, in complete accord with De Gasperi’s requests in his letter to Truman, were: 1) that Clayton be instructed to go to Italy to examine the situation together with Italian experts; 2) that an American governmental committee be constituted for the same purpose; and 3) that serious consideration be given to the need of immediate and substantial financial assistance from international, governmental or private sources, to enable Italy to regain its economic stability as quickly as possible.

On 5 May 1947 De Gasperi summoned Dunn in great secrecy to discuss confidential matters.⁵⁶ First he informed the ambassador that the letter to Truman had been delivered through a back channel in order to avoid sending it through the Italian embassy in Washington. The conversation then moved on to the political situation. De Gasperi told the ambassador that he considered it advisable to broaden the composition of the Government to include members of the other centrist parties and had already discussed the question with Socialist leader Pietro Nenni and Communist Party secretary Palmiro Togliatti. Togliatti’s response had been favourable, provided the initiative did not involve changes to the Government’s programme, while Nenni had raised difficulties but had not vetoed the idea outright. Although De Gasperi ascribed

⁵⁵ For details of the so-called Truman Doctrine and its application to Greece and Turkey, see Brown and Opie (1953), pp. 124-125 and 127-131.

⁵⁶ Dunn to Marshall, 6 May 1947, 865.51/5-647, in NACP; RG 59; State Department Central Decimal Files, 1945-49, box 6944.

the public's lack of confidence in the Government to the presence of the Socialists and Communists, he told Dunn that he felt it would not be wise for the time being to form a government without them unless they excluded themselves voluntarily, and was ready in any case to hand over the reins of government to any "able and efficient" successor.⁵⁷

If De Gasperi had been counted on the effects of his message to Truman, Dunn's response must have come as a jolt. Before considering aid to Italy, said the ambassador, the Americans had to see the steps the Italians had taken "to put their house in order". The United States could not shoulder the entire burden for Italy, said Dunn. It was necessary that the Italians tackle their own problems and take the necessary steps to improve the situation. Only then would the US Administration be able to convince the American people and Congress that the US could render effective aid to Italy. To De Gasperi's objection that assistance might come too late, Dunn offered a vague, evasive response, which he summarized as follows in his telegram to the State Department: "I told him that we all had the greatest confidence in him personally and that he wanted to be of all the help we could and that we were sincerely hopeful that he would find the means of correcting the present situation and take advantage of the splendid attitude and will to work of the Italian people at this present time." De Gasperi then asked Dunn to remind the State Department that Italy faced an election campaign amidst financial difficulties, inflation and possible hunger, and made a plea for Clayton to come to Italy visit as soon as possible at least with a view to discussing the situation.⁵⁸

On 13 May De Gasperi opened the cabinet crisis and in the process made the question of the reshuffle very concrete for the State Department. In a memorandum dated 15 May, Matthews notified Marshall that Tarchiani, upon his return from Rome, would call to report on the situation in Italy and on the possibility of the Communists' leaving the Government. Matthews warned that Tarchiani would probably demand assurances of support from the United States if and when the new cabinet was formed. As Tarchiani had already discussed the situation with Truman several days earlier, and as it appeared that Truman had assured him, in general terms, of continued US support

⁵⁷ Accordingly, De Gasperi excluded Francesco Saverio Nitti, a prominent pre-Fascist liberal politician, on grounds of the latter's poor health. The attempt in mid-May to have Nitti appointed to form a government failed after only a few days. See Gambino (1975), pp. 341-346.

⁵⁸ Harper criticizes Dunn's unsympathetic response to De Gasperi's attempts in those days. But in the light of De Gasperi's letter to Truman and of the recommendations made in the memorandum of 1 May, one can surmise that Dunn simply wanted to hide the fact that he lacked adequate instructions.

and of America's desire to demonstrate that support, Matthews recommended offering proof of America's good intentions through statements to the press, favourable treatment for Italy in the peace treaty, the activation of the Eximbank loan and the return of Italian assets frozen in the United States.⁵⁹

As announced, Tarchiani did call Marshall on the afternoon of the 16th, informing him that he had met with Truman and had been encouraged by the President to carry on the discussion with the Secretary of State. Tarchiani painted a dark picture, one aggravated by the Communist victory in the Sicilian regional election.⁶⁰ According to Tarchiani, during the election campaign the Communists had spent some \$2 million, the huge figure testifying to Moscow's intention of gaining control of Italy. From Italy, he warned, Communist influence would extend to Greece and Turkey and then spread northward, in Germany and Austria, and westward, in France and Spain. Control of Italy would also facilitate Communist penetration of North Africa, an area of growing importance for Moscow. De Gasperi would do everything possible to prevent the spread of communism, even if the formation of a government without the parties of the left could not be foreseen for the moment. It was important, however, Tarchiani stressed, that every effort be made to help Italy from that moment up to the October elections, bearing in mind that a withdrawal of the Allied troops before the elections would heighten the risk of an armed insurrection and a Communist takeover.

Although this prospect evidently worried Marshall, he offered only vague encouragement. Tarchiani then described the economic situation, stressing the positive impact that an increase in US food aid would have on popular morale. He also suggested that issuing a US statement at the time of ratification of the peace treaty containing some reference to Italy's "disarmed frontiers" would constitute a sort of "moral guarantee" by the United States that they would be respected by an aggressive, well-armed Yugoslavia. Marshall replied that he was aware of the importance of helping Italy from the psychological point of view and told Tarchiani that Voice of

⁵⁹ Matthews to Marshall, 15 May 1947, 865.51/5-1547; in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6944.

⁶⁰ Compared with the general election of 2 June 1946, the election of 20-21 May for the first Sicilian Regional Assembly saw the Christian Democrats' share of the vote plunge from 33.6 to 20.5 per cent, while the People's Bloc (comprising the Communists, Socialists and Action Party) advanced from 21.5 to 30.4 per cent. See Gambino (1975), p. 324.

America broadcasts could be stepped up and that Ambassador Dunn would be authorized to continue addressing the Italian public.⁶¹

Shortly thereafter, on 20 May, Tarchiani called Matthews to pass on a “top secret” message from De Gasperi responding to Tarchiani’s report on his conversations with Truman and Marshall. In this message De Gasperi judged that Nitti would probably not succeed in forming a government and that he himself would then be appointed.⁶² However, he feared he might fail, and that a period of uncertainty and disorder would ensue, paving the way for a Communist victory and its tragic repercussions. Tarchiani explained that De Gasperi “apparently needed encouragement”; that De Gasperi wanted to know specifically “whether he could count on the moral support of the United States and on additional financial help to enable Italy to meet its financial necessities this year” if he undertook to head a new government. Matthews immediately consulted Marshall and then called Tarchiani back with the following message for De Gasperi: “You may count on the strong moral support of the United States and that we will make a serious effort to assist Italy in meeting her essential financial needs”. Throughout these dealings Tarchiani emphasized the confidentiality of his communications from and to De Gasperi and urged that the matter be kept entirely secret.⁶³ In a telegram the same evening, Marshall advised Dunn that, in view of the Italian situation, any non-Communist government formed following De Gasperi’s resignation had to achieve rapid, visible improvements in the economic situation and demonstrate to the Italians that they would enjoy Western support if further progress in Italy along democratic lines could be expected.⁶⁴

A week later, on 27 May, De Gasperi met with Dunn to inform him that he was seriously considering forming a cabinet comprising only Christian Democrats and perhaps a sprinkling of independent experts. At the same time he voiced fears that if this new administration failed to solve the economic situation, it would be succeeded by a government of the extreme left. Dunn took the occasion to brief De Gasperi on the contents of Marshall’s telegram.⁶⁵ While De Gasperi said he was fully appreciative of

⁶¹ See FRUS (1947), pp. 904-908.

⁶² See note 57.

⁶³ Matthews, Memorandum of Conversation, 20 May 1947, FRUS (1947), pp. 908-909.

⁶⁴ Marshall to Dunn, Washington, 20 May 1947, FRUS (1947), pp. 909-910.

⁶⁵ Dunn had been unable to meet earlier with De Gasperi, who was busy in talks to form the new government.

the US Government's favourable attitude, he added that new substantial aid would be necessary if he undertook to form a new government without the backing of the parties of the left. The pursuit of economic and financial stability would be based on a host of unpopular measures; the country could accept such a programme only with the prospect of having the financial strength to effect economic recovery. A significant contribution from the United States would enable him to take up the battle against the parties of the extreme left. Victory in this battle was essential for the country, stressed De Gasperi; if his party were politically discredited, the effort to preserve real democracy in Italy would be eclipsed.

According to Dunn's report to Marshall, the point had been reached where all possible assistance should be given to De Gasperi if he succeeded in forming a new government, including the use of extraordinary measures.⁶⁶ A Christian Democratic Government headed by De Gasperi and backed by the United States could bring about an increase in the parliamentary representation of the centre and centre-left, strengthening the democratic forces that otherwise would not be able to resist the efforts of the extreme left.⁶⁷

Of an entirely different tenor was the meeting that took place the same day between Tasca and Campilli. Dunn, who was busy with De Gasperi and thus unable to confer personally with the Treasury Minister, reported that Campilli was timorous and irresolute and Tasca aggressive and not inclined to offers or concessions⁶⁸. Campilli attempted uneasily to play the card De Gasperi had used with Dunn, suggesting that the attempt to form a government without the Communists would have to be accompanied by "something spectacular to offer Italian people, for example €200 million of post-UNRRA aid".⁶⁹ But Tasca responded abruptly that there was no possibility of intervention for the time being. Reverting to the views he had expressed several days

⁶⁶ This was a week before the announcement of the Marshall Plan, and Dunn was unable to think of anything more ambitious than the granting of a €100 million Eximbank loan during the second half of the year and an additional loan of the same amount using funds diverted from financing that was to be provided to China.

⁶⁷ Dunn to Marshall, Rome, 28 May, 1947, FRUS (1947), pp. 911-913.

⁶⁸ Dunn to Marshall, 15 May 1947, 865.51/5-2847; in NACP; RG 59; State Department Central Decimal Files, 1945-49; box 6944.

⁶⁹ This programme was designed to guarantee urgent deliveries for the second half of 1947, after the cessation of United Nations Relief and Rehabilitation Administration (UNRRA) shipments in June. The programme, provisionally called post-UNRRA, was later definitively named AUSA (Aid United States of America). See Martinez Oliva and Stefani (2000), p 126.

earlier in his report to the State Department, he added that the crisis of the lira was basically a domestic matter, caused by the public's lack of confidence in the Government's ability to solve the economic situation: the lira could be saved by a stable government that showed its determination to make people obey the rules, combating tax evasion, enforcing foreign exchange regulations, eliminating the black market in foreign exchange, and so forth.⁷⁰

Two days later, on 31 May, De Gasperi announced the formation of a new government made up of Christian Democrats and liberal-leaning experts. Prominent among the latter was Luigi Einaudi, appointed to head the newly created Budget Ministry and also designed Deputy Prime Minister.⁷¹

Examining the dense exchange of communications in the weeks preceding the reshuffle, one must conclude that the fears De Gasperi expressed to Dunn were couched to impress the Americans by suggesting that a risky step was about to be taken and that an unfavourable outcome would open a vast breach through which the left could return to government. By emphasizing the political risk associated with the exit of the Socialists and Communists from the executive, a leitmotif of the dialogue with Washington in that period, De Gasperi sought to persuade the Americans to provide the needed economic and political support.⁷²

Yet De Gasperi's move would not have succeeded had the parties of the left remained in the Government. Why it succeeded is an issue of considerable historiographical debate. Among the different positions, one of the most persuasive in various respects is Pietro Scoppola's argument that the parties of the left essentially excluded themselves and were, not less than De Gasperi and the Christian Democratic Party, the "authors and protagonists" of that decisions.⁷³ Among the Communists, in particular, the need to transform the party's internal structure and adapt it to life in a Western representative democracy without severing the ties to the revolutionary premise on which the party had been founded came as the paramount consideration during that

⁷⁰ Dunn to Marshall, 29 May 1947, OASIA 67A1804; in NACP; RG 56; Italy: Economic and Financial, Vol. 1; Country Files, 1934-52; box 15.

⁷¹ For details of Einaudi's participation in the Fourth De Gasperi Government, see Conte (1998), pp. 411-421.

⁷² Pinzani (1995), p. 41, submits that "the end of anti-Fascist unity was dictated by excessive worries and, in the final analysis, by a form of self-deception, since the 'Communist threat' was in reality much less real than it was asserted to be".

phase. In the name of internal reorganization, the party turned from the objective of maintaining an alliance that had permitted Italy to progress, albeit laboriously, on the path of economic and political reconstruction.⁷⁴

Moreover, Togliatti, perfectly aware of the country's severe problems, may have decided in that difficult pass to offer a government that did not include the left a chance to pursue the necessary stabilization policies, thereby freeing the Communist Party from the dilemma of either assuming responsibility for those policies or obstructing them from within the administration. This is borne out by a long letter that Raffaele Mattioli, managing director of Banca Commerciale Italiana, wrote to Togliatti on 28 May, on the eve of the crucial decisions that led to the formation of the De Gasperi's Fourth Government: "You asked me for my opinion of the monetary and financial situation. I replied that we no doubt have been suffering from a disease for some time; that it would be idle to say that we will die of it a month sooner or a month later; but that that it no doubt is choking us day after day; that characteristic of it is its increasing acceleration. This disease is, we know, the disintegration of the currency and credit."⁷⁵ After meticulously describing the inflationary process and its possible remedies, Mattioli turned to the problem's political implications. The need to subdue inflation stood above ideologies and political differences: "'Sound finance' today in Italy is not a 'reactionary' interest. ... Is someone really beating the drum of 'sound principles' today simply to pin the blame on the left for the troubles he expects or even hopes will come? As things now stand in Italy, the smartest move for the left would be to take him at his word. It would then be seen which of the two truly held the country's destiny dear to his heart. And if it were both? Would this be such a great misfortune, even in political and electoral terms? Is not your party and those close to it charged with an historic task, the execution which has nothing to fear from this?"

In Mattioli's view the real danger lay elsewhere. It consisted in inaction, in thinking that in the moment of need "the Americans" would step in and "set things to rights". But if "we are heading for ruin, the Americans' first reaction will be to step

⁷³ Scoppola (1988), p. 314.

⁷⁴ As Giorgio Amendola acknowledged, "The new party was not prepared for the new function of government party; it was subject to many maximalist and extremist pressures". Quoted in Scoppola (1988) p. 314. On the role of the Communists in the governments preceding De Gasperi's fourth cabinet, see Barucci (1973), pp. 700-703.

⁷⁵ For the full text of the letter, see Mattioli (1994), pp. 301-318.

back, and then when they do come Italians will have known hunger, our productive apparatus will be wrecked, our independence lost as a result, and without the Americans even wanting it, in the hands of improvised foreign administrators. Who for starters will compel us to do through with that facing of the facts that we lacked the strength of mind and will to undertake on our own.” In several passages Mattioli reiterated the necessity of defending the country by taking the measures that otherwise would be decided by others: “... [O]ur independence for a long time to come is effectively at stake today ... when we still have a crucial decisive margin of political and economic responsibility and initiative of our own.” The “monetary and financial decay” is aggravating the need for aid from abroad and “pushing us towards a receivership on the part of [the United States] that would deprive us of our independence and make us at least appear to be a passive tool of others’ policies”.⁷⁶

According to Mattioli, that is, Italy ran the risk of losing its political sovereignty and being run from abroad if serious steps were not taken in the direction of economic consolidation and adjustment. How real this risk was is hard to say, although, as we shall see, the possibility of external management was also considered by the Americans. Nor do we know with certainty whether Mattioli’s arguments helped to prompt Togliatti towards withdrawing from the Government, albeit temporarily. However, we can conjecture that the ideas and opinions that Mattioli put forward in his long letter represented a fair approximation of the views of an important part of the country’s leaders, no doubt including those who became the protagonists of the stabilization.

⁷⁶ The hypothesis of Italy’s being put under international “special administration” for financial management was anything but bizarre. In the case of Greece, in fact, the Anglo-Hellenic Convention of 24 January 1946 established a currency committee, with one American and one British member, that ended up exercising far-reaching control over the country’s economy and public finances. For that matter, almost three decades earlier the League of Nations had been empowered to supervise the stabilization programmes in Austria and Hungary. See Makinen (1984), pp. 1069-1070.

6. After the reshuffle

The day after the new administration was formed Ambassador Dunn hastened to write to Marshall: “Now that a government has been formed by the Christian-Democrats with outside experts but without Communists or their affiliates, I recommend most strongly that our government take whatever steps may be possible to demonstrate our support and readiness to aid in their efforts to save the lira and secure their economy.” Events took a different course, however. On 5 June Marshall announced the aid programme that would bear his name.⁷⁷ In the spirit of the Truman Doctrine, the programme was aimed at thwarting the Soviet Union’s ambitions to exert hegemony over Western Europe. The announcement had the effect of putting all bilateral assistance programmes on the backburner, in favour of the vast multilateral assistance plan whose details were only gradually filled in. For Italy it translated into expectations of substantial aid in the near future but a temporary suspension of assistance in the short run, at a time when it was urgent to take steps to fight inflation that would have both immediate and lasting effects but not create unsustainable hardships for the population. Informed by Dunn, the American authorities were fully aware of these difficulties. On 18 June Dunn reported that Italy’s foreign exchange reserves were being exhausted and that the wheat harvest was insufficient, pointing out that the food shortage could be exploited by Communist propaganda. In the subsequent weeks there was an improvement in the political situation and Dunn reported that the exchange rate of the lira on the free market had gone from 900 to 600 per dollar following the ouster of the Communists from the Government. In addition, Togliatti had reluctantly given the Marshall Plan guarded support, demonstrating that the general enthusiasm surrounding the Plan had put the Communists in a corner.⁷⁸

Under Secretary of State Clayton finally made his long-awaited visit to Italy on 23 and 24 July for a round of talks with De Gasperi, Einaudi and other ministers on such

⁷⁷ For an examination of the Marshall Plan and its administration, see Martinez Oliva and Stefani (2000), pp. 172-198.

⁷⁸ See Matthews’s Memorandum, Washington, 9 July 1947, FRUS (1947), pp. 933-935.

matters as the peace treaty and American assistance to Italy.⁷⁹ The opinions of the two sides diverged most sharply on the subject of aid. In particular, the Italians calculated their need for food aid at \$236 million, while the Americans put the figure at \$83 million.⁸⁰ Judging from the account given by the Italian ambassador in Paris, Pietro Quaroni, to Foreign Minister Sforza,⁸¹ Clayton did not come away from the talks with the best of impressions. In an initial meeting, Clayton did not mince words in describing US concern over the Italian situation. Quaroni reported to Sforza: “He spoke of Italy’s monetary chaos, but above all of the situation of our budget. He told me he had spoken at length with Minister Einaudi and had found his ideas and principles perfectly ‘sound’. He only doubts the Italian Government’s political ability to maintain this line under pressure from the extreme left; he doubts our administration’s ability to pursue a serious financial policy. And so, he told me, in order for other states to agree to guarantee the Italian and French currencies, the two countries must acquire international guarantees for their domestic financial policy.” The vague but certainly worried expressions that Clayton used in the discussion prompted Quaroni to return to the subject in a subsequent conversation and ask Clayton what he had meant by “international guarantee”. Clayton replied that some form of international control on Italy’s financial administration struck him as inevitable. This, Clayton said, would facilitate the job of the Government, which was competent but lacked political and administrative strength. According to Quaroni’s account, Clayton said that “for various reasons it would be well if this control were not American. In his opinion this control should be assigned to the entity that would administer the stabilization or clearing fund, that is to say an entity in which we would be represented. According to him, this would allow us to save face in some degree. Control would not be completely foreign, but exercised by an entity in which we would participate.” Quaroni’s concern over Clayton’s ambiguous phrase is perfectly comprehensible, although Clayton probably was alluding to the creation of a

⁷⁹ Dunn to Marshall, confidential letter, Rome, 25 July 1947, FRUS (1947), pp. 945-49.

⁸⁰ The Italian estimate was that of the Lombardo Committee. The report with the American estimates, dated 25 July 1947, is contained in the memorandum from Ness (Director for Financial and Development Policies) to Thorp (Assistant Secretary of State for Economic Affairs), dated Washington, 25 July 1947, FRUS (1947), p. 943. The discrepancies between the estimates did not keep Clayton from expressing his appreciation of the Italian ministers, whom he described to Dunn as “a earnest and competent group of officials who were doing their very best in the interest of their country”. See Dunn to Marshall, confidential telegram, Rome, 26 July 1947, FRUS (1947), p. 949.

multilateral organization of Marshall Plan beneficiary countries, the Organization for European Economic Cooperation, charged with coordination and multilateral oversight of the member countries' economic policies, rather than to the intervention of the "improvised foreign administrators" feared by Mattioli and perhaps by many other Italian political and economic leaders.

The measures long under study in the Bank of Italy and backed by Menichella were by now ready and the time had finally come to implement them. The first meeting of the Interministerial Committee for Credit and Savings, held on 4 August 1947, decided to introduce the new system of compulsory reserves with effect from 30 September. This required banks to make deposits to their reserve accounts with the Bank of Italy, in cash or government securities, in proportion to the growth in their own deposits. The Committee also raised the discount rate from 4 to 5.5 per cent.

New, unforeseen circumstances were emerging in the meanwhile, making Italy's economic and financial conditions even more precarious. The crisis of the pound sterling in August, following the British authorities' unsuccessful attempt to restore convertibility, made it impossible for Italy to draw on its ample reserves of sterling in order to finance imports. The reserves in dollars, built up with the recovery of foreign demand for Italian products, had been eroded by the race to buy up hedge goods and by the flight of capital abroad race in the face of high inflation.⁸² The dollar reserves fell from \$125 million at the end of 1946 to as low as \$9 million in September, on the eve of the entry into force of the monetary stabilization measures. The possibility of obtaining raw materials to be paid for in dollars was thus very limited,⁸³ while the Italian Foreign Exchange Office's holdings of sterling amounted to some £23 million of now inconvertible notes.⁸⁴ Italy even lacked the means to pay for the purchases of coal from the United States planned for the month of October. Pending a British response to Italy's request to be able to count on the availability of between \$10 million and \$15

⁸¹ Letter from Ambassador Pietro Quaroni to Foreign Minister Carlo Sforza, FLE, I, 2, Quaroni, published in Ricossa and Tuccimei (1992), p. 461.

⁸² See Donato Menichella (1966), p. 836.

⁸³ The Italian Exchange Office reported that as of 8 October it held, directly or through agent banks, less than \$9 million, enough to cover just a few days' imports in dollars. See the memorandum from the Italian embassy to the State Department, Washington, 20 October 1947, FRUS (1947), p. 995.

⁸⁴ Italy's shortage of dollars was aggravated by the fact that in the months preceding the British measure the Italian government, under pressure from the British, had abstained from demanding conversion of

million per month, the Government was forced to suspend purchases of numerous essential commodities.

On 27 August Tarchiani pressed Acting Secretary of State Robert A. Lovett for American financial assistance and for US support for the steps the Italian Government was intending to take with London. The State Department agreed to consider including the October coal shipment in the post UNRRA aid programmes,⁸⁵ but the British Government refused to budge and the talks with the British authorities during the mission of Einaudi, Menichella and Carli to London in September 1947 on the occasion of the annual meeting of the Monetary Fund proved utterly fruitless.⁸⁶

The subsequent attempts to obtain American support were equally unavailing. On the morning of 18 September Einaudi and Menichella delivered a memorandum to US Treasury Secretary John W. Snyder describing the dramatic state of Italy's foreign exchange reserves, now all but exhausted, and soliciting immediate aid from the United States.⁸⁷ The document detailed the measures the new De Gasperi Government had introduced to restore confidence. Although these had enabled the lira to appreciate considerably with respect to the height of the crisis in May, the Italians explained, the exhaustion of the foreign reserves in September made it necessary to obtain "extraordinary aid in order to make it to the end of the year and, in any event, to the time Marshall Plan aid [would] start up."⁸⁸ Snyder told the Italians that he was not free

pounds, counting on being able to use those amounts to pay for expected purchases of basic commodities in the fourth quarter of the year.

⁸⁵ See Lovett to Dunn, confidential letter, Washington, 27 August 1947 FRUS (1947), p. 957; account of the conversation between Lovett and Tarchiani, drawn up by Lovett, Washington, 28 August 1947, FRUS (1947), pp. 957-59; Tarchiani to Lovett, urgent letter, Washington, 28 August 1947, FRUS, (1947), pp. 959-62.

⁸⁶ See Ricossa and Tuccimei (1992), note 226, p. 103. Carli, who later became governor of Bank of Italy, was at the time director general of Ufficio Italiano Cambi.

⁸⁷ "Note sulla visita del sen. Einaudi e del dr. Menichella al segretario del Tesoro americano sig. Snyder. (Giovedì 18 settembre 1947, ore 11.-)", 18 September 1947, ASBI, Segreteria Particolare, pratt., n. 1412, fasc. 1, Istituti di Bretton Woods - BIRS e FMI - fasc. 2^a Riunione Annuale 1947. The episode is cited by Baffi. Nine years after the episode, he reports, Menichella revealed that "during the annual conference of the governors of the International Monetary Fund and of the World Bank held in London in September 1947, he and Einaudi informed their American colleagues, Snyder and Clayton, on Italy's impending foreign exchange crisis. The two American officials were forced to remark that it would still take several months before Congress approved Marshall Plan aid. See P. Baffi, *Studi sulla moneta* (Milan: Giuffrè, 1965), p. 266, note 21.

⁸⁸ See "La gravità della situazione italiana, appunto presentato al Ministro Snyder", 18 September 1947, ASBI, Segreteria Particolare, pratt., n. 1412, fasc. 1, Istituti di Bretton Woods - BIRS e FMI - fasc. 2^a Riunione Annuale 1947. A copy of this document, found in a different archive and without an indication of its addressee, is published in Ricossa and Tuccimei (1992) as Document No. 56, "Memoria [del

to act on the matter, since the decision had to be submitted to Congress. The following afternoon they drew a similar response from Under Secretary of State Clayton, who admitted, however, that he agreed that the Italian situation was serious and that action on the part of the United States was urgent.⁸⁹ During the meeting Clayton voiced sharp concern about the “severe political and social repercussions” of the suspension of coal shipments, fearing for the stability of the De Gasperi cabinet. This argument no doubt carried weight in the decision, made a few months later, to allow Italy to benefit from post-UNRRA aid considering the need to back the Italian Government in view of the April elections.

7. Epilogue

The entry into force on 30 September of the measures announced on 4 August had immediate effects, reflecting the psychological impact of the change of monetary regime determined by the new government’s credibility and the availability of more effective instruments of control on the part of the Bank of Italy.⁹⁰ The measures mopped up excess liquidity, rapidly reining in the expansion of credit, supported the market for government securities,⁹¹ restored effective control of money and credit, and helped to turn around expectations about inflation and the exchange rate.⁹² When the industrialists protested over the sudden check to the expansion of credit, Einaudi advised them to liquidate the stocks of raw materials, foreign currency and assets such as real estate and shares that they had accumulated during the inflationary phase.⁹³ As early as October the cost of living and wholesale price indices declined and monthly

Governo italiano] sull’analisi delle misure antinflazionistiche adottate dal Governo De Gasperi”, pp. 474-78.

⁸⁹ “Note sul colloquio avuto dal sen. Einaudi e dal Dr. Menichella con il Sottosegretario di Stato, Signor Clayton, venerdì 19 settembre 1947 (ore 16.30)”, secret, 19 September 1947, ASBI, Segreteria Particolare, pratt., n. 1412, fasc. 1, Istituti di Bretton Woods - BIRS e FMI - fasc. 2^a Riunione Annuale 1947.

⁹⁰ Gaiotti (2000) has shown that the episode was a case of hyperinflation that was brought to an end through the effect of the change of monetary regime on individual behaviours, in line with Sargent’s classic conclusion.

⁹¹ By means of the option given to banks of satisfying the reserve requirement by depositing government securities.

⁹² See Cotula and Martinez Oliva (2003), pp. 463-469.

⁹³ See Hirschman (1948), p. 603.

inflation, which in September had hit 60 per cent on an annual basis, came to a halt. Prices continued to fall until the end of the following year and then rose at moderate rates through most of the 1950s. The implementation of the Marshall Plan beginning in 1948 helped to lessen the costs of the stabilization, indeed making it possible,⁹⁴ allowed industrial activity to start up again without burdening the balance of payments, and fostered the growth of trade with the rest of Europe. The monetary stability that was achieved enabled Italy to seize the opportunities offered by the Marshall Plan, contributing to a phase of growth and investment that lasted until the turn of the 1970s.

⁹⁴ Eichengreen and Casella (1991) have persuasively argued that expectations of the Marshall Plan's positive effects worked in favour of disinflation by attenuating distributional conflicts.

Name abbreviations

<i>ABI</i>	<i>Associazione Bancaria Italiana</i>
<i>ASBI</i>	<i>Archivio Storico della Banca d'Italia, Roma</i>
<i>AUSA</i>	<i>Aid United States of America</i>
<i>BIRS</i>	<i>Banca internazionale per la ricostruzione e lo sviluppo</i>
<i>CICR</i>	<i>Comitato interministeriale per il Credito e il Risparmio</i>
<i>FLE</i>	<i>Fondazione Luigi Einaudi</i>
<i>FMI</i>	<i>Fondo Monetario Internazionale</i>
<i>FRUS</i>	<i>Foreign Relations of the United States</i>
<i>ILS</i>	<i>Istituto Luigi Sturzo</i>
<i>NACP</i>	<i>National Archives at College Park</i>
<i>UIC</i>	<i>Ufficio Italiano Cambi</i>
<i>UNESCO</i>	<i>United Nations Educational Scientific and Cultural Organization</i>
<i>UNRRA</i>	<i>United Nations Relief and Rehabilitation Administration</i>

Archival abbreviations

<i>b.</i>	<i>busta</i>
<i>cart.</i>	<i>cartella</i>
<i>doc.</i>	<i>documento</i>
<i>fasc.</i>	<i>fascicolo</i>
<i>pratt.</i>	<i>pratica</i>
<i>RG</i>	<i>Record Group</i>
<i>scat.</i>	<i>scatola</i>

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