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War Finance (Italy)

By Fabio Degli Esposti

Setting out from the fundamental variables of the Italian economy and finances on the eve of the war and during the years of conflict, this article highlights the country's dependence on international markets and its choice in favour of the Entente. Italy's war was financed to a small extent by fiscal pressure but to a great extent by going into debt. Until 1916, the notion of a short war prevailed, without excessive strains on the public finances and with scant recourse to allied loans. With the passage to total economic and financial mobilisation, Italy became ever more dependent on allied loans (initially English, and then American), and on domestic public indebtedness. Five national loans were launched, the issue of ordinary government securities was boosted and the circulation of paper currency markedly increased.

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Introduction: Italy in the International Economy on the eve of the Conflict

On the eve of the first global conflict, the Italian economy was in a phase of transition: the early years of the 20th century had seen notable progress in the industrial sector, but agriculture still had an important role to play and employed the greater part of the active population. Whereas from a diplomatic point of view Italy was tied by its military alliance with Germany and Austro-Hungary, at the same time it was fully involved in the system of the international economy, in a position that could be defined as one of "multiple dependence". The agricultural sector had its strong points in various specialist products (silk, hemp, wine, olive oil, fruit and vegetables), but could not guarantee the country's self-sufficiency in basic foodstuffs, being obliged to import vast quantities of cereals from Russia and Romania. Italy's principal economic partner, Germany, supplied above all else manufactured goods. Basic energy needs were, however, covered by English coal, which was imported, along with many other commodities unloaded at Italian ports, and carried by ships sailing under the British flag. The problem of the steep rise in freight charges had already had negative consequences for the economy during the phase of neutrality.

The Italian balance of trade was constantly in the red, and the country's balance of international payments was guaranteed by invisible entries such as the remittances of Italian citizens who lived or at any rate worked abroad, and the revenues from tourism. Tables 1, 2 and 3 record the principal indicators of the national economy, comparing the situation in wartime with the immediately preceding years.[1]

Years	Wheat Production	Wine production (thousands of hectolitres)	Spun and woven cotton	Mineral iron	Fossil fuels (brown coal)	Hydroelectric energy production (millions of Kw/h)	Initial smelting of crude steel
1908-1912 (average)	4,608.5	49,770	169.8	510.3	560.0	1,315	569.7
1913	5,689.8	58,210	175.6	603.1	697.3	2,000	933.5
1914	4,492.5	47,965	165.8	706.2	778.3	2,325	911.0
1915	4,517.8	21,233	253.3	680.0	939.0	2,625	1,009.2
1916	4,676.3	43,412	220.6	942.2	1,282.8	3,225	1,269.5
1917	3,708.7	54,279	156.1	993.8	1,657.0	3,775	1,331.6
1918	4,855.6	40,657	113.4	693.9	2,117.1	4,100	992.5
1919	4,497.2	38,999	155.4	613.0	1,123.3	3,790	731.8

Table 1: Basic production of the Italian economy (1912-1919). Save where otherwise indicated the figures given are in thousands of tons.

	Goods unloaded	Wheat	Coal	Scrap	Wrought	Total value	Total value	Trade balance

Years	in Italian ports	imports	imports	iron imports	iron imports	of imports	of exports	of payments
1908-1912 (average)	20,939	1,349.0	9,349	373.1	288.5	3,272	2,042	– 1,075
1913	23,526	1,810.7	10,834	326.2	267.1	3,646	2,497	– 991
1914	21,484	1,015.7	9,759	254.9	227.1	2,953	2,195	– 459
1915	21,298	2,252.2	8,369	261.5	161.9	4,704	2,512	– 590
1916	19,652	1,830.5	8,065	342.7	291.7	8,390	3,053	– 3140
1917	14,142	1,916.0	5,037	227.2	750.3	13,990	3,276	– 6,883
1918	13,783	1,541.9	5,841	17.7	656.3	16,039	3,305	– 7,826
1919	15,707	2,104.8	6,226	96.3	464.9	16,623	6,004	– 7,774

Table 2: Principal Italian imports (1912-1919). Save where otherwise indicated the figures given are in thousands of tons and in millions of lira at current values.

Years	Balance on goods	Balance on services	Balance of revenues from investments and work	Current transfers (remittances etc.)	Overall balance
1908-1912 (average)	– 1,075	415	485	101	– 75
1913	– 991	392	587	107	95
1914	– 459	302	381	76	299
1915	– 590	– 695	82	290	– 913
1916	– 3,140	– 1,081	43	315	– 3,863
1917	– 6,883	– 2,303	21	434	– 8,731
1918	– 7,826	– 3,007	– 209	449	– 10,593
1919	– 7,774	– 1,243	1,315	284	– 7,418

Table 3: Italian balance of payments (1912-1919). In millions of lira at current values.

Even if the tensions within the political and military alliance (the sometimes fractious relations between Rome and Vienna) were set to one side, the government, in deciding whether to remain neutral or to opt for intervention, could not help but take account of the context described above. The idea cherished by some of a neutral Italy able to establish fruitful economic relationships with both alliances was soon shown to be illusory. The strict control established by Great Britain over international trade condemned the economies of the neutral countries, especially those heavily dependent upon imports, to stagnation. Seeking to evade this circumstance, Italy was obliged to turn to the alliance capable of satisfying its economic and financial requirements, and this could only be the Entente.

A Financial Policy for a Short War

The decision to enter the war was not popular, and in many respects this fact influenced the choices made by Antonio Salandra's (1853-1931) government, not least the financing of the war. As elsewhere, the path followed was that of indebtedness, but behind this general phenomenon, the Italian case presents various particular aspects that merit close scrutiny. Tables 4 and 5 summarise the principal data regarding Italian public finances and developments in monetary policy.

Years	Bank monetary circulation	State monetary circulation	Overall paper money circulation	Lira-sterling exchange (a)	Lira-dollar exchange (a)	Wholesale prices index	Index of the cost of living
1912	2,212	499	2,711	25.47	–	92.4	97,1
1913	2,284	499	2,783	25.68 (b)	–	100	100
1914	2,936	657	3,593	26.24 (b)	5.28 (b)	95,8	100
1915	3,968	1,082	5,050	29.23 (b)	6.18 (b)	127.3	107
1916	5,012	1,317	6,330	32.62	6.86	184.7	134
1917	8,425	1,748	10,173	39.67 (c)	8.33 (c)	274.3	189
1918	11,750	2,124	13,874	30.25 (d)	6.32 (d)	412.9	264
1919	16,281	2,270	18,552	50.11 (e)	13.08 (e)	450.1	268

Table 4: Monetary circulation, exchanges, prices index (1912-1919). In millions of lira at current values. (a) Exchange at December of the corresponding calendar year; (b) average price for the year; (c) exchanges at June 1917: 33.98 and 7.14; (d) exchanges at June 1918: 43.68 and 9.09; (e) exchanges at June 1919: 37.33 and 8.05.

Years	Taxes on income	Taxes on business and on the movement	Taxes on	Revenues derived from the	General total of	General total of	Expenditure on national	Share of expenditure on national	Gross national	Relations public

	and inheritance	and exchange of goods and services	consumption	taking out of loans	revenues	expenditure	defence	defence as against the total	income	expendit income
1911-12	570	582	678	300	3,070	2,938	758	25.8	19,213	15.3
1912-13	584	661	711	322	3,041	3,174	1,006	31.7	19,934	15.9
1913-14	608	590	742	554	3,433	3,150	949	30.1	19,158	16.4
1914-15	640	456	744	1,137	3,804	5,631	3,149	55.9	21,508	26.2
1915-16	779	555	942	6,064	9,435	10,965	8,437	76.9	29,201	37.6
1916-17	1,131	753	1,178	9,090	13,938	18,216	13,263	72.8	38,532	47.4
1917-18	1,551	1,215	1,433	13,833	21,212	26,204	17,924	68.4	47,397	55.3
1918-19	2,041	1,438	1,887	13,279	23,702	28,877	17,329	60.0	58,009	49.8
1919-20	2,450	1,892	3,009	9,873	21,527	21,218	10,648	50.1	87,894	24.1
1920-21	3,898	2,399	4,398	11,635	25,861	24,339	4,865	20.0	88,973	27.4

Table 5: Principal data relating to public finance (from 1911-12 to 1920-21). In millions of lira at current values.

During the crisis of August 1914, the bank scare manifested in Italy (as elsewhere) was addressed by means of a moratorium allowing the credit institutions to withstand requests that deposits be reimbursed. A few months later, in the spring of 1915, the *Consorzio per sovvenzioni su valori industriali* (CSVI, Industrial Securities Finance Consortium) was created, with the aim of bolstering the banking system in its financing of enterprises needing liquidity. At that moment, however, the period of recession following the outbreak of hostilities was in the process of being overcome through the military preparations undertaken with a view to Italy entering the war.[2]

Until the spring of 1916, economic and financial mobilisation for war remained relatively limited. The relevant costs were covered initially through the issue of short-term government securities, and then, between December 1914 and the beginning of 1916, through the issue of three national loans. The terms gradually became ever more profitable for investors, yet the loans were not greeted with particular enthusiasm, to judge by the falls in the quoted prices of these bonds. Furthermore, take-up was predominantly in northern Italy, and chiefly among the petty bourgeoisie. The participation of the working classes continued in fact to be modest.[3]

The same approach can also be discerned during the initial phase of economic relations with the allies. In the negotiations that led up to the signing of the Treaty of London the financial support that the British government would offer the Italian government was obviously also discussed. The agreement was initially for a payment of 50 million pounds sterling, which would be dispensed – backed by a substantial guarantee in terms of Italian gold reserves – over a period of six months, in other words, over what, according to evidently rash (but at the time plausible) predictions, was supposed to be the duration of the conflict. In reality, by the beginning of 1916, the credit granted by the allies was exhausted, and the military confrontation, far from being concluded, had now revealed its true nature; Italy was engaged in an industrial war, for the waging of which a complete economic and financial mobilisation was necessary.

English support was subsequently confirmed, but with more stringent criteria governing the Italian government's use of the funds received. In other words, in meeting Italian domestic requirements, priority would be given to goods located in the sterling area, that is to say, on the British market or on that of the British Empire. Acquisitions on neutral markets, in particular that of the United States, would therefore where possible be avoided. Italy thus became involved in the dispute between Great Britain and the United States over the future balance of power within the international economic system.[4]

The final aspect to be considered is the recourse to the tax burden, to which Luigi Einaudi (1874-1961), future president of the Italian republic, devoted a large volume published in the Carnegie Endowment for International Peace series. According to Einaudi, this policy enjoyed a very modest success, in part because, the attempts made in the early years of the century to reform the system having failed (in particular as regards the reorganisation of direct taxation), the pressure had increased, rendering the various tax rates excessively harsh or introducing taxes that hit the various categories of taxpayer in an inequitable fashion. It was also, in part, and this was crucial, because the scant popular support for the war induced the government to renounce any pretensions to a "stoic" response to the war, which would have fostered yet more discontent in the country at large. As in the past, indirect taxes yielded the most revenue, in a context in which, however, taxation was only of secondary importance to the financing of the war.[5]

Financing Total War

The none too brilliant results from the military perspective, culminating in the Austrian offensive in the Trentino of May-June 1916 (*Strafexpedition*), convinced the Italian government, now headed by Paolo Boselli (1838-1932), to show more resolution in taking the path of complete economic and financial mobilisation. Initially recourse was still had to short-term indebtedness and to the expansion of monetary circulation; then, in the course of 1917, two further national loans were organised. The second of the two, the *V prestito nazionale*, launched in the weeks following the defeat of Caporetto, was strongly backed by the new Minister of Treasury, Francesco Saverio Nitti (1868-1953), not only in order to accumulate further resources for the war effort, but also to send a political signal to the allies. Italy was determined to continue the war until victory was won, making all the necessary sacrifices, on condition however that they met her requests in terms of continuity of supplies and the opening of new lines of credit.[6]

The further acceleration of the war effort greatly benefited business, in part because the philosophy espoused by the principal organiser of Italian industrial mobilisation, General Alfredo Dallolio (1853-1952), was that of driving production to the maximum, without being overly concerned about the prices paid for orders. Even during the phase of neutrality, the military ministers had won the right to disregard the ordinary rules of state accounting when making their purchases. Once the conflict had begun, those in charge of arms and munitions did not know how to, or did not wish to introduce effective forms of control over the prices of procurements, which gradually swelled. Very often industrialists exploited the fact that civil servants lacked the competence to deal with such matters and were under pressure from the demand for armaments voiced at the front. Despite the creation, in 1917, of a *Commissione consultiva per la revisione dei prezzi* (Consultative Commission for Price Review), which rejected a fair number of contracts or else had them modified, its actions did not suffice to keep procurement prices effectively under control. If one then bears in mind the fact that the final prices took into account – implicitly – the taxation (direct taxes, war pennies ["*centesimi di guerra*"]) that hit businesses, we can take it that taxation ended up stoking the inflationary process. As the former Minister of Finance Leone Wollemborg (1859-1932) observed, Italian finance had turned into an enormous bucket wheel that scooped up and released water at ever-higher speeds. In short, fiscal policy exacerbated the inflationary spirals already produced naturally through the expansion of public expenditure.[7]

This latter contributed significantly to stoking inflation even when it resorted to instruments – war loans – that in theory should have kept the money supply under control. The Italian Minister of Treasury exerted sufficient influence over the banks to be able to force them to subscribe generously to the war loans and to take responsibility for selling them to the public, while businesses, for their part, accepted Treasury bonds and war loan securities as a form of payment for the orders entrusted to them.

Nonetheless, both the banks and the industrialists found ways of recovering the liquidity needed for their ambitious plans for expansion, reselling the bonds on the market or using them, where entrepreneurs were involved, as a guarantee through which to obtain bank loans. Moreover, these transfers, which usually meant the placing on the market of a huge quantity of securities, served to reduce their cash value, thereby harming small savers. The latter would prove ready to run fresh risks only in return for yet higher rates of interest. In short, the war loans also helped to stoke the inflation, which, in theory, they had been designed to combat.[8]

The financing of the Italian war effort involved both the necessary mobilisation of the productive sectors deemed to be strategic, and, in line with the interests of an important part of the political class (the nationalists, but also Nitti), a significant extension and consolidation of the industrial base. Consequently, control over domestic prices was lost, and procurement procedures were not rationalised. One of the most pressing aspects of the question, the object of a lively debate in the post-war period, was thus highlighted: in other words, the fact that war expenditure from early on eluded any real control not only by parliament but even by the executive itself. It is therefore no surprise to find that the first and most important task assigned to the Parliamentary commission for an enquiry into war expenditure which sat between 1920 and 1922 was to establish exactly how much the Italian war had cost.[9]

Naturally, when evaluating inflationary processes, we should also single out the ever-higher cost of productive factors linked to the Italian economy's dependence on overseas. The system could perhaps hold together in normal times, but the war changed things radically: cereals had to be purchased in distant markets across the ocean. The purchases of coal effected on the English market posed ever more of a threat to British domestic requirements and to those of the other allies: Italy received less and less coal, while however paying more and more for it. Some attempts were of course made to boost domestic energy production: lignite extraction was for example intensified, but probably the most important outcome in this regard was the spectacular increase in the hydroelectric production of energy (Table 1, columns 5 and 6). Nonetheless, coal could not be wholly replaced: scarcity of fossil fuels led to a perceptible drop in efficiency in, for example, railway transport. Likewise, the other raw and semi-worked materials needed for the successful prosecution of wartime production became ever more costly. One then had to add the ever-higher costs of maritime freight charges to the original extraction or production costs: even in the pre-war period, the Italian merchant navy was not able to meet the needs of the import trade, and the allied navies were in any case decimated by the German submarine war.

The war economy therefore rendered imports more expensive and, furthermore, stimulated the development of substitutive domestic productive factors without taking undue account of costs, with considerable effects upon price dynamics. Furthermore, it opened up an ever deeper chasm in the country's balance of trade. If the deficit remained relatively limited until 1916, with the shift to total mobilisation, the Italian war effort became ever more dependent upon imports and, as a consequence, upon the financial support of the allies. As we have already seen, for a large part of the conflict Italy's principal financial partner was Great Britain, whose role, as we have said, was of vital importance also to naval transport.[10] This dependence led to an appreciable devaluation of the lira against sterling.

However, there were other, more far-reaching consequences. Notwithstanding Britain's massive potential, the Entente's position became ever more difficult. Firstly, it became necessary to rationalise the provisioning system, imposing common purchasing strategies in neutral countries and seeking to employ the available shipping in the best way possible. This nonetheless did not resolve the most pressing problem, namely, the fact that British industry and, more generally, the economy of the British Empire was not capable of meeting all the demands of the alliance. It was necessary, in short, to turn to other markets, especially that of the United States, and the Americans did not hesitate to exploit this position of strength. Until the beginning of 1917, President Woodrow Wilson (1856-1924) thus tried to persuade the Entente to enter into a compromise peace, while the financiers and industrialists for their part sought to substantially modify the balance of power between the American and the British economic systems. In this conjuncture, Italy and the other allies became something of a burden for London, since the credits conceded to them were used to effect purchases on the American market, thereby undermining the solidity of sterling against the dollar.[11]

After the entry of the United States into the war the British did their utmost to "offload" upon Washington the burden of financing the Italian war, and this is indeed what happened. Thanks to the American loans, it was possible not only to stabilise the exchange of the lira, which had appreciably worsened in previous years, but even to bring it back up to the levels of 1915. Among the initiatives undertaken by Nitti in order to avoid further tensions over exchange rates the *Istituto nazionale per i cambi sull'estero* (Ince) was created, which, from spring 1918 onwards, assumed an exchange monopoly, and, consequently, a tighter control over foreign trade, limiting imports to strictly essential products. The Italian banking system did not appreciate the measure, and the director of the Bank of Italy, Bonaldo Stringher (1854-1930), even went so far as to observe that the depreciation of the lira had structural causes, and consequently Ince would not be able to solve the problem. The Minister of Treasury was for his part convinced that the currency trading supervised by the banks or by importers had had a part to play in the weakness of the lira.[12]

Conclusion

Both, in their own way, were right: speculation on the lira did indeed exist, but without the support of the allies, depreciation would have followed. With the end of inter-allied economic and financial cooperation, only a few months after the cessation of hostilities, Italy's prospects had become extremely sombre, inasmuch as they had come to lack the resources required to embark upon the difficult process of reconverting the economy to peace. As for the domestic debt, its very steep rise in terms of currency was rendered less grave by the effects of the inflationary processes, which were destined to continue at an accelerated tempo in the post-war period. Naturally, what represented an advantage for the state signified serious damage for those who, in the previous years, had invested in the financing of the war effort. This, moreover, was a factor that no evaluation of the disturbed aftermath of the war in Italian politics can afford to ignore.

Fabio Degli Esposti, University of Modena and Reggio Emilia

Section Editor: Nicola Labanca

Translator: Martin Thom

Notes

1. ↑ The data contained in these and the subsequent tables are drawn from: Istituto Centrale di Statistica: Sommario di statistiche storiche italiane 1816-1955, Rome 1958; "Annuario Statistico Italiano", Serie II, vol. VI (1916), vol. VII (1917-1918); Serie III, vol. I (1927); Ragioneria generale dello Stato: Il bilancio dello Stato italiano dal 1862 al 1967, Rome 1969, 4 vols.
2. ↑ Toniolo, Gianni (ed.): La Banca d'Italia e l'economia di guerra 1914-1919, Rome-Bari 1989, pp. 18-26.
3. ↑ Forsyth, Douglas J.: The crisis of liberal Italy: monetary and financial policy, 1914-1922, Cambridge 1993, pp. 105-107; Frascani, Paolo: Politica economica e finanza pubblica in Italia nel primo dopoguerra (1918-1922), Naples 1975, pp. 41-50.
4. ↑ Falco, Giancarlo: L'Italia e la politica finanziaria degli alleati, 1914-1920, Pisa 1980, pp. 57-63; Toniolo, La Banca d'Italia 1989, pp. 33-39.
5. ↑ Einaudi, Luigi: La guerra e il sistema tributario italiano, Bari 1927; See also: Einaudi, Luigi: La condotta economica e gli effetti sociali della guerra italiana, Bari 1933, pp. 37-57; Frascani, Politica economica 1975, pp. 30-36.
6. ↑ Toniolo, La Banca d'Italia 1989, pp. 45-53; Forsyth, The crisis of liberal Italy 1993, pp. 117-124.
7. ↑ Forsyth, The crisis of liberal Italy 1993, pp. 95-104; Einaudi, La condotta economica 1933, pp. 125-130; Frascani, Politica economica 1975, pp. 44-50.
8. ↑ Forsyth, The crisis of liberal Italy 1993, pp. 120-125.
9. ↑ At the end of 1922, the overall cost was estimated as being 132,644 million lire, a figure that included both the liquidation of a large part of the expenses to which the government had already committed itself at the end of 1918, although they had not yet been effected, and the systematisation of the war contracts. Commissione parlamentare d'inchiesta sulle spese di guerra (Ulderico Mazzolani): Costo finanziario della guerra, in Atti Parlamentari, Leg. XXVI, Sessione 1921-23, Documenti, vol. III, doc. XXI.
10. ↑ According to Frascani, Politica economica 1975, p. 113, at the end of hostilities the loans advanced by the allies to Italy amounted to 24,221 million lire, of which 15,405 had been conceded by the British and 8,537 by the Americans.
11. ↑ Falco, L'Italia e la politica finanziaria degli alleati 1980, pp. 26-43.
12. ↑ Falco, L'Italia e la politica finanziaria degli alleati 1980, pp. 44-56 and 105-118; Frascani, Politica economica 1975, pp. 50-53; Toniolo, La Banca d'Italia 1989, pp. 45-61.

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