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Creation of Triest Free Territory: An
examination of the decision-making
process through correspondence letters in
the aftermath of World War II

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Abstract

This paper examines the establishment of Trieste as a Free Territory after WW2. The existing literature covered its contested status between Yugoslavia and Italy, focusing on its socioeconomic, and geopolitical challenges. However, I adopt a unique approach examining correspondence letters between country leaders and internal reports to provide first-hand accounts of the negotiations and considerations of leaders from the United States, United Kingdom, Italy, France, and the U.S.S.R. The methodology involves a qualitative analysis of the correspondence letters to comprehend the decision-making process behind the creation of Trieste Free Territory. The findings reveal a consensus on establishing a unique currency the "Triestuno" and Bank of Issue for Trieste, which aimed to provide financial stability but faced challenges due to limited initial capital and dependency on external financial support. It then complements this with internal reports providing data on economic indicators such as budget allocations, balance of payments, labour, and wages. The budgetary analysis shows a balance between revenue and expenditure, with a potential surplus indicating cautious financial planning. Furthermore, the balance of payments reveals Trieste's dependence on international trade, particularly with neighbouring countries and the importance of the port and shipbuilding industry offers potential for economic growth.

Introduction

The dispute over Trieste has been examined from different facets being a contested city between Yugoslavia and Italy, but there has been a lack of research regarding the creation of the Trieste Free Territory after World War II. In discussions about the Trieste Free Territory, it raised interest among scholars in the economic, geographic, social and political challenges it presented. One common thought was that Trieste could sustain itself and be economically independent, suggesting that the city's strategic location and industrious population would enable it to thrive autonomously. However, some argue that

the geopolitical tensions and economic dependencies on surrounding nations would hinder its viability as an independent entity. The central question driving this research relates to the wider debate on the Trieste dispute and the extent to which it was feasible to establish a Free Territory. For my research, I will focus on the economic implications of establishing the Trieste Free Territory, as reflected in the correspondence between country leaders during the post-World War II. This question will be answered through a qualitative examination of correspondence letters and internal reports to comprehend the decision-making process regarding Trieste's viability as an independent economic entity. This research aims to bridge a gap in the literature by offering first-hand accounts of the thought processes, negotiations, and interactions between key political figures, such as the Foreign Ministers of the United States, United Kingdom, Italy, France, and the U.S.S.R. These documents capture the real-time complexities and considerations that shaped the course of history, providing valuable insights into the socio-economic implications of creating an independent territory. By analysing the internal reports of these documents, I will provide a detailed analysis of Trieste including economic indicators such as budget allocations, balance of payments, labour and wages. By contextualising the dispute over Trieste within a broader regional and international framework, this research will elucidate the socio-economic and political complexities that have perpetuated the ambiguity and contention over Trieste's status. This research paper will begin by providing context on the historical background of Trieste, I will then contextualise the research question by conducting a literature review.

Consequently, the source will be evaluated, and the methodology section will outline the research approach. The analysis section will address currency issues for Trieste's independence from the perspectives of various countries involved through correspondence letters; then, it will examine internal reports focusing on labour and wages, budget allocations, and balance of payments. This structured approach will ensure a thorough examination of the economic implications of the establishment of the Trieste Free Territory.

The Historiographical Context of Trieste Free Territory

Situated between northern Italy and Yugoslavia, the Free Territory of Trieste emerged as a distinctive geopolitical and economic entity encompassing approximately 800 square kilometres, with its population estimated to not exceed 400,000 individuals.¹ Since 1719, Trieste was autonomous with its own free port under the Hapsburg and Austro-Hungarian Empires.² However, following their collapse, Trieste came under Italian control through the Treaty of Rapallo in 1920.³ During the interwar period, Trieste endured the hardships inflicted by Italian Fascism which escalated in 1944 when Nazi Germany seized control of the territory.⁴ Subsequently, Yugoslav troops occupied Trieste in May 1945, leading to a provisional division of the territory agreed by the Allied and Yugoslav governments. With the Belgrade agreement of June 9, 1945, Yugoslav troops withdrew, and the Anglo-American Forces came into power.⁵ The British and Americans deemed Trieste essential for future occupation in Austria, whilst preventing its annexation to Yugoslavia.⁶ As a result, they set up an Allied Military Government (AMG) to oversee Trieste and its transportation links with Italy and, subsequently, with Austria's Zone A.⁷

After the conclusion of the war in Europe, the Council of Foreign Ministers from France, the United Kingdom, the United States, and the Soviet Union convened in London to negotiate the terms of the Italian peace treaty.⁸ Given Trieste's history of autonomy, in 1946 it was decided to establish a Free Territory formally established in 1947 by the United Nations Security Council who supervised it

¹ Bank of England. "Italy: Trieste Free Territory - Currency." 9 Jul 1946 - 10 Dec 1947. Reference Number OV36/70. 1 file. Original Reference CBP256_03v1. Archives of the Bank of England.

² F. Capano, "Fighting for Trieste: Nationalism and Political Violence at the Edge of the Iron Curtain," *Journal of Modern Italian Studies* 21, no. 4 (2016): 603-626.

³ *Ibid.*, 603-626.

⁴ Leonard Unger and Kristina Segulja, *The Trieste Negotiations* (Washington, D.C.: The John Hopkins Foreign Policy Institute, 1990), 7-8.

⁵ F. Capano, "Fighting for Trieste, 603-626.

⁶ Paul D. Lensink, "Building Tito's Separate Road: Yugoslavia and the United States, 1949-1957" (PhD diss., Indiana University, 1995), 125.

⁷ Leonard Unger and Kristina Segulja, *The Trieste Negotiations*, 7-8.

⁸ Bogdan C. Novak, *Trieste, 1941-1954: The Ethnic, Political and Ideological Struggle* (Chicago: University of Chicago Press, 1970), 275.

despite it being designed to have its own government and legal framework.⁹ Initially Trieste was governed by a temporary Allied Military Government and later transitioned to civilian administration by Italy and Yugoslavia while awaiting the appointment of a UNSC-approved Governor.¹⁰ However, this never occurred, which hindered the settlement for Trieste. Despite its formal recognition as a distinct entity as a free city and port, it never functioned autonomously. As a result, the territory remained under the administration of three countries: Italy, Slovenia, and Croatia. The delineation of the Italo-Yugoslav border, while partly influenced by local factors like ethnicity and economics, primarily served as a compromise to mitigate East-West tensions, with Trieste being a point of contention.¹¹

The decision to internationalise Trieste was made by the major powers leaving both Italy and Yugoslavia dissatisfied, arguing that the peace treaty of 1947 was imposed upon them. Thus, creating an international territory provided both Eastern and Western blocs access to the port. The Free Territory of Trieste underwent a de facto partition, with no power willing to challenge this status quo militarily.¹² By 1948, the provisional setup, with the Anglo-American military governing Zone A and the Yugoslav military governing Zone B, appeared to solidify as a permanent arrangement.¹³ Disagreements between the Soviet Union and Western powers over the appointment of a governor hindered the Trieste Free Territory from functioning as an independent political entity. Instead, its borders became a representation of the Iron Curtain, dividing Europe's economic, political, and ideological systems.¹⁴

The failure to establish normal East-West economic relations further impeded Trieste's development, marking the early stages of the Cold War. This outcome

⁹ Leonard Unger and Kristina Segulja, *The Trieste Negotiations*, 8-11.

¹⁰ Ibid, 10.

¹¹ Bogdan Novak, *Trieste, 1941-1954*, 278.

¹² Dennison I. Russinow, "What Ever Happened to the 'Trieste Question'? De-fusing a Threat to World Peace," *Southeast Europe Series 2* (January 1969): 12.

¹³ Ibid, 12.

¹⁴ Bogdan Novak, *Trieste, 1941-1954*, 280.

reinforced Italy and Yugoslavia's recognition of their influence over the division between Zones A and B with futile efforts to reach a bilateral agreement between Italy and Yugoslavia.¹⁵ Italian political instability culminated with its June 1953 parliamentary elections which contributed to achieving a solution acceptable to both Italy and Yugoslavia.¹⁶ Following discussions between the United States and Britain with the Italians and Yugoslavs, a final resolution was achieved. Yugoslavia acquired nearly all of Zone B and a portion of Zone A, while Italy gained control of the city of Trieste and the majority of Zone A.¹⁷ Ultimately, both nations agreed to a solution allowing each to annex its respective zone of the Trieste Free Territory. On October 5, 1954, the signing of the Memorandum of Understanding marked the dissolution of the Free Territory of Trieste, resulting in the formal transfer of civilian administration to neighbouring Italy and Yugoslavia.¹⁸

The Historiography of Trieste Free Territory

Before delving into the historiography of the creation of Trieste Free Territory, I will provide a conceptual framework. Following World War II, there was considerable debate among nations regarding whether Trieste should be designated as a Free Territory. For a space to be classified as a free territory, it must be a distinct political entity under international administration. They lack full sovereignty being governed by the international community but not belonging to the global community and maintain independence relating to self-governance.¹⁹

Micro-states are distinguished by their small size, their legal and economic structures. As stated by Dózsa, their peculiarity was their “importance of being

¹⁵ Dennison I. Russinow, "What Ever Happened to the 'Trieste Question', 15.

¹⁶ Leonard Unger and Kristina Segulja, *The Trieste Negotiations*, 22.

¹⁷ Ibid., *The Trieste Negotiations*, 38.

¹⁸ Paul D. Lensink, "Building Tito's Separate Road", 136.

¹⁹ I. Okunev, *Where There's a Will, There's a Way* (Moscow: Newstex, 2020), 166.

unimportant”.²⁰ Trieste’s characteristics and history present a unique case which can, to a certain extent and although possessing only semi- sovereignty, be compared to European micro-states like San Marino, Liechtenstein, Andorra, and Monaco.²¹ Veenendaal outlines how microstates have been provided with great opportunities through European integration and the exploitation of niche markets.²² However, this was not the case for Trieste due to its political situation, which hindered its ability to exploit economic opportunities. Furthermore, in examining Trieste, it is crucial to consider the historical context of the Italian peninsula, noting that Italy has only been a unified nation since 1861 and was previously fragmented into numerous city-states.²³ In fact, city-states’ geographic features do not allow for a homogeneous social, cultural, or economic field.²⁴ Hence, for Trieste, even if a micro-state in terms of characteristics, it would be more accurate to compare it to a city-state given its fragmented socioeconomic nature defined by Yugoslav and Italian cultures.

Through this literature review I aim to provide context for my research question by delving into the historical context, economic impacts, and geopolitical strategies associated with Trieste.

Governance Challenges

Coloni and Clegg outline the unresolved status of the Free Territory of Trieste, established in 1947 through the United Nations Security Council Resolution 16 and the Treaty of Peace with Italy.²⁵ The territory has been administered by Italy, Slovenia, and Croatia, resulting in an ambiguous legal status.²⁶ The paper

²⁰ Dániel Dózsa, "EU Relations with European Micro-States. Happily Ever After?" *European Law Journal* 14, no. 1 (January 2008): 93–104, 95.

²¹ *Ibid.*, 93.

²² Wouter Veenendaal, "Politics of the Four European Microstates," in *Handbook on the Politics of Small States*, (2020), 164.

²³ Guilherme de Oliveira and Carmine Guerriero, "Extractive States: The Case of the Italian Unification," *International Review of Law and Economics* 56, issue C (2018): 142-159.

²⁴ Z. Barański and R. West, *The Cambridge Companion to Modern Italian Culture* (2001), DOI:10.5860/choice.39-5407, 20.

²⁵ Marina Coloni and Peter Clegg, "Reflections on the Status of the Free Territory of Trieste," *Small States & Territories* 5, no. 1 (2022): 179-194.

²⁶ *Ibid.* 180.

examines the historical context, the failures to implement the original governance plans, and the ongoing political and social discontent in Trieste. It further explores potential resolutions, including holding a referendum on self-determination, appointing a provisional governor, or maintaining the status quo.²⁷ The authors argue that the current de facto administration, while stable, leaves significant legal and political issues unresolved, highlighting the tension between de jure and de facto sovereignty and the challenges of achieving a definitive settlement for the territory.²⁸ Thus, contextualizing this with my research allows us to comprehend international governance, self-determination, and the unique challenges faced by microstates and disputed territories in the post-war European context.

As outlined by Josef L. Kunz, the establishment of Trieste as a free territory was primarily a geopolitical compromise aimed at mitigating the Italo-Yugoslav territorial dispute and balancing East-West tensions during the early Cold War era.²⁹ The Italian Peace Treaty, envisioned Trieste as a neutral, demilitarised zone under the aegis of the United Nations Security Council.³⁰ This preserved its strategic importance as a commercial port for Central Europe while avoiding East-West disputes. Kunz's analysis highlights how Trieste's situation exemplifies broader issues in international law and governance, particularly the difficulties in enforcing multilateral agreements and the inherent instability in politically and ethnically divided regions. This supports my research showing the complexities of international governance in achieving stability in Trieste.

Economic Impacts

Historian Leonard Unger provides an analysis of the Free Territory of Trieste's economic significance in post-war Europe. He assesses the economic provisions of the Italian peace treaty, particularly the governance structure and trade

²⁷ Ibid., 180.

²⁸ Ibid., 182.

²⁹ Josef L. Kunz, "The Free Territory of Trieste," *The Western Political Quarterly* 1 (June 1948), 99.

³⁰ Ibid., 100.

arrangements, such as the establishment of a free port and guarantees for essential supplies and transit facilities. Unger highlights the macroeconomic benefits and international trade facilitation, and discusses the guarantees of essential supplies and transit facilities provided by the treaty.³¹ His focus on international trade facilitated by the Free Port's establishment aimed to ensure equal terms for international trade among Yugoslavia, Italy, and Central European states.³² However, his analysis neglects the local economic impacts, such as the displacement of businesses and workers and the rise of black markets.

Gove outlines the challenges Italy faced in integrating Trieste post-1954, emphasising insufficient support for the shipbuilding industry and overlooking the economic disruptions from 15 years of Allied and Yugoslav occupation.³³ The Memorandum of Understanding shifted economic recovery responsibility to Italy, exacerbating local economic instability due to administrative changes that disregarded existing socio-economic structures.³⁴ This led to high unemployment, strained resources, and significant social consequences from an influx of refugees fleeing Yugoslav policies.³⁵ Trieste's diminished role as a major port and competition from other ports further complicated its recovery, highlighting the complexities of reintegration efforts. Through my research I aim to contribute to understanding the socio-economic disruptions and administrative hurdles that characterised the transition from the Trieste Free Territory period.

Geopolitical Strategies

Jelena Velisavljevic investigates the political dimensions of the 1953–1954 crisis in the Trieste Free Territory, focusing on diplomatic strategies of key figures

³¹ Leonard Unger, "The Economy of the Free Territory of Trieste," *Geographical Review* 37, no. 4 (October 1947): 583-608, <https://www.jstor.org/stable/211187>.

³² Ibid., 584.

³³ M. K. G., "The Trieste Dispute," *The World Today* 10, no. 1 (January 1954): 6-18, <https://www.jstor.org/stable/40392677>.

³⁴ M. K. G., "Trieste under Italian Administration," *The World Today* 12, no. 2 (February 1956): 79-87, <https://www.jstor.org/stable/40392882>, 84.

³⁵ Ibid., 84.

such as Clare Boothe Luce within the broader Cold War context. Her unique exploration of American diplomacy provides an understanding of U.S. foreign policy and regional tensions.³⁶ This, however, overlooks the influence of international legal perspectives on the territorial status and the diplomatic tension between Italy and Yugoslavia. Conversely, Alicic highlights Yugoslav national interests and strategies in the Trieste controversy, emphasising how Yugoslavia positioned itself as defending its national territory and protecting Slovene populations from perceived Italian imperialism.³⁷ Her focus on Yugoslavia's diplomatic manoeuvres within the broader Cold War geopolitical landscape does not consider the perspectives and responses of other key actors, such as Italy, the United States, and the United Nations.

Historian J.R. Whittam elucidates the evolving political and military considerations that shaped British policy towards the Trieste territory in World War II.³⁸ His research underscores the strategic deliberations among Britain, the United States, and the Soviet Union in response to competing territorial claims over the Venezia Giulia region.³⁹ Whittam demonstrates that these international negotiations were influenced by a complex interplay of geopolitical interests, where each power sought to extend its influence in post-war Europe. However, his analysis arguably overlooks significant aspects of the local dynamics. Particularly, it does not adequately address the impact of local resistance movements against both Axis and Allied forces and the economic disruptions faced by Trieste.

Through the work of Rabel, the perspective of American policymakers between 1941 and 1954, are outlined. Rabel traces the United States' policy regarding the

³⁶ Jelena Velisavljevic, "Clare Boothe Luce and the 1953-1954 Trieste Crisis" (Master's thesis, University of Nevada, Las Vegas).

³⁷ Nasiha Alicic, "Localizing the International: Yugoslavia and the Trieste Controversy, 1945-1954" (Master's thesis, University of California Riverside, 2020).

³⁸ J. R. Whittam, "Drawing the Line: Britain and the Emergence of the Trieste Question, January 1941-May 1945," *The English Historical Review* 106, no. 419 (April 1991): 346-370, <https://www.jstor.org/stable/573106>.

³⁹ *Ibid.*, 346.

Italo-Yugoslav border conflict, particularly focusing on Trieste, from the onset of World War II through the May 1945 crisis and into the early Cold War period.⁴⁰ By examining the policies and decisions of American policymakers, Rabel's work provides valuable insights into the economic strategies and outcomes associated with the creation of the Trieste Free Territory.

Through my research I aim to address a gap in the literature regarding the economic implications of the establishment of the Trieste Free Territory by focusing on the correspondence between country leaders during the immediate post-World War II period. This will uncover the decision-making processes and the viability through internal reports of the creation of Trieste as an independent entity which has not previously been done by scholars. Hence, I will contextualise the dispute over Trieste through an innovative approach elucidating on the region's socio-economic and political complexities.

Source Discussion

The primary source used for this paper is a historical document found in the Archives of the Bank of England containing correspondence letters exchanged between countries and internal reports regarding the Trieste Free Territory between the 9th of July 1946 and the 10th of December 1947.⁴¹ Correspondence letters provide a dynamic perspective on historical events, capturing the immediacy and complexity of unfolding situations in real-time, portraying the emotions, relationships and decision-making processes. In this case, they are key to understanding the decision-making thought process exchanged between country leaders following World War II. The integration within the document of internal reports is invaluable to complement quantitatively the described socioeconomic situation of Trieste in correspondence letters. Such reports detail governance and administration aspects covering economic indicators such as

⁴⁰ Roberto G. Rabel, *Between East and West, Trieste, the United States, and the Cold War, 1941-1954* (London: Duke University Press, 1988).

⁴¹ Bank of England. "Italy: Trieste Free Territory - Currency." 9 Jul 1946 - 10 Dec 1947.

balance of payments, revenues and expenditures, labour and wages, social insurance, and budget allocations. Through letters, diplomatic notes and internal reports, the reader can comprehend human interactions, exchanges, and negotiations that shape the course of history.

The publication is unique, merging official correspondence letters data from country leaders, such as United Kingdom, United States, Russia and Italy, and internal reports of governance and administration aspects of Trieste post-World War II. The letters exchanged between country leaders and foreign ministers regarding the establishment of the Trieste Free Territory were written by governmental officials representing the respective countries involved in the negotiations. These correspondences were crafted to understand the economic, diplomatic, and political implications of creating the Trieste Free Territory and elucidate the stance of each participating nation. Addressed to key stakeholders and decision-makers within the governments, the letters were intended to provide insights into the motivations, concerns, and strategic considerations driving the negotiation process. Unlike other sources, this publication offers real-time information based on the perspective of the main powers, shedding light on the intricate negotiations and considerations that shaped the territory's creation. Including economic indicators in the internal reports is advantageous in assessing the feasibility of establishing a Free Territory post-war. Due to the sensitive nature of the discussions, the correspondence was strictly confidential, meant only to be seen by the designated recipients and the countries involved, ensuring discretion and confidentiality in diplomatic affairs.

Its holistic nature is particularly valuable for my purpose as its inclusion of internal reports provides detailed data on the economic situation of Trieste Free Territory which allows me to draw conclusions regarding the creation of the Territory and its potential in the long run. Furthermore, its consistent and standardised data is historically valuable for scholars to analyse the economic dynamics of the post-war era. For my research, this source is invaluable as it allows me to delve into a specific time frame that has been largely overlooked in

previous scholarly inquiries. Surprisingly, this source has remained undiscovered and has not been utilised in any other research endeavours. In fact, historians analysed periods in between the creation of the Free Territory but there has been lack of research on the thought process during the establishment of Trieste. Through this unique access to a previously unexamined internal correspondence and reports from governmental bodies, I can provide insights into the economic situation of the Trieste Free Territory after World War II, contributing to the understanding of this pivotal period in history.

One of the primary strengths of the source lies in its authenticity and authority, derived from its origin as correspondence exchanged between country leaders and internal reports prepared by governmental bodies. This inherent authenticity stems from the fact that the letters and reports are official documents produced by authoritative sources involved in the creation and governance of the Trieste Free Territory. As such, they carry significant weight in terms of reliability and credibility, as they represent the official positions, decisions, and actions of the respective governments. The formal and secret nature of these documents lends legitimacy to the information contained within, providing researchers with a solid foundation upon which to base their analyses and interpretations of the historical events surrounding the establishment of the Trieste Free Territory. Additionally, the authenticity of the source is further underscored by its provision of real-time insights into the decision-making processes that shaped the territory's creation. Unlike other historical sources, this document offers a vivid portrayal of the intricate dynamics of diplomatic relations and economic planning, offering valuable insights into the thoughts, discussions, and negotiations between countries.

However, there are limitations emerging from this confidential document from the Bank of England. The source covers a narrow period between 1946 and 1947 which may result in an incomplete representation of the broader historical context and the long-term developments concerning the Trieste Free Territory. This limitation overemphasises short-term considerations and overlooks the

evolution of policies and relationships over a more extended period. The events and discussions documented within this period are valuable for my research as they capture only the ongoing diplomatic and political negotiations.

The document's confidential nature raises concerns about transparency and accountability, as the absence of external scrutiny may allow for the manipulation or distortion of data to serve specific interests. For internal reports produced by a governmental institution, the document may be subject to biases and selective reporting. This could reflect institutional biases or agendas, potentially shaping the presentation of information to favour certain narratives or outcomes. Furthermore, its confidentiality may have led to the omission of sensitive or controversial information, limiting the comprehensiveness and accuracy of the historical record.

Diplomatic communications and internal reports may purposefully exclude sensitive details or discussions deemed unsuitable for public disclosure, thereby restricting researchers' access to critical insights into decision-making processes. These omissions could obscure key aspects of the negotiations that shaped the economic policies of the Trieste Free Territory, hindering a comprehensive understanding of its establishment. Additionally, potential language barriers may impede its effectiveness for thorough historical analysis. When country leaders communicate in different languages, the subtleties and nuances of diplomatic exchanges are often lost in translation which can obscure the true intentions or meanings behind statements or proposals. Translation errors or inaccuracies can undermine the document's reliability and credibility for scholarly inquiry. Therefore, while the document offers valuable insights, researchers must evaluate the potential biases and limitations.

Method

To address the research question regarding the economic implications of the establishment of the Trieste Free Territory a qualitative approach is adopted.

Through my study I hypothesise that the creation of the independent city of Trieste significantly influenced the economic conditions in the region, as reflected in the correspondence between country leaders during the immediate post-World War II period. The primary unit of analysis is the Trieste Free Territory itself, viewed within a broader regional and international context. The use of correspondence letters as primary sources provides first-hand accounts of the thought processes and negotiations between country leaders, capturing the complexities of their decisions in real-time. For instance, by evaluating the interactions between Foreign Ministers of countries like the United States, United Kingdom, Italy, France and the U.S.S.R. regarding the Trieste Free Territory. This is crucial for understanding the socio-economic implications of creating an independent territory that is often not fully captured by quantitative data alone. Additionally, the historical document from the Archives of the Bank of England, which includes both correspondence and internal reports, includes some quantitative economic indicators covering economic indicators such as balance of payments, revenues and expenditures, labour and wages, social insurance, and budget allocations. However, the data is limited, only supplementing the findings of correspondence letters. Thus, the paper focuses on the qualitative aspects, enabling the reader to comprehend the human interactions, exchanges, and negotiations that shaped the course of history.

While the qualitative approach adopted for this study is well-suited for understanding the economic implications of the Trieste Free Territory's establishment, it presents limitations. The reliance on correspondence letters as primary sources may introduce a degree of subjectivity and bias reflecting the interests of the correspondents. Additionally, these letters may omit certain economic details or broader contextual factors that the correspondents did not deem relevant or appropriate to discuss in their communications. Unlike quantitative approaches, which utilise numerical data to establish patterns and correlations across larger populations, qualitative methods rely on smaller sample sizes and subjective interpretations. Although the document presents internal reports valuable for their quantitative data, their partial nature does

not fully capture all relevant economic indicators or provide a complete picture of the economic conditions in the Trieste Free Territory. This limitation necessitates a greater reliance on the qualitative aspects of the correspondence.

To specifically address the question, I will focus on correspondence letters from July 1946 to December 1947. This period is crucial for examining the post war economic conditions of the Trieste Free Territory and hence its viability to sustain itself as a Free Territory. This temporal perspective will help trace the thought process of country leaders in a limited time frame regarding the economic policies to implement and their impacts. Nevertheless, the short time frame of the analysis, although crucial for understanding the thought process of establishing the independent territory of Trieste in 1946/47, presents limitations due to its narrow time frame. Failing to examine preceding periods inhibits the socio-economic dynamics underlying Trieste's territorial ambitions. Key developments and policies before 1946 are essential for elucidating the foundational factors behind the establishment of the Free Territory. Additionally, despite deciding whether to allow Trieste to be independent, Foreign Ministers are assessing its long-term ability to function, there is no insight into whether it was a success.

In my examination of the economic implications of establishing the Trieste Free Territory following World War II, I will employ a comprehensive approach focusing on both primary and secondary data sources. I will evaluate each correspondence letter to ensure a thorough source-led analysis and avoid any bias that might arise from secondary interpretations. Throughout this process, I will systematically extract key themes related to the economic viability of the Trieste Free Territory from the correspondence. One of the primary themes I will focus on is the discussions surrounding the introduction of a new currency and the establishment of a Bank of Issue. This includes looking at different countries' perspectives regarding how to implement a currency for Trieste, the challenges associated with such a financial move, and the potential impacts on the local and international economy. Another theme I will assess is the support strategies

proposed by the involved nations, particularly the United States, United Kingdom, Italy, France, and the USSR to stabilise and develop Trieste's economy. Additionally, I will explore the geopolitical considerations that influenced these economic policies, examining how international relations and strategic interests shaped the proposals and decisions documented in the correspondence.

I will then collect data regarding labour, budget allocations and balance of payments which were, respectively, merged into tables from which I created graphs to demonstrate the data set visually. I will analyse wage data across various sectors, including industry, commerce, credit and insurance, agriculture, government employment, and maritime. The wage data will be broken down into clerical and manual positions, highlighting the disparities and economic strategies employed to stabilise different sectors. I will also compare these wages to the estimated family cost of living to understand the economic pressures on families and the effectiveness of social safety nets, such as unemployment pay for clerical and manual workers. Consequently, I will look at the data on the budget for the creation of Trieste Free Territory. Specifically, I will delve into the revenues and expenditures analysing the issues derived from previous governments and how these will be assessed to ensure financial stability in the territory. To assess the financial health and international relationships of the Trieste Free Territory, I will consider analysing the differences between receipts and expenditures. Recognising the significant role of the shipping sector in Trieste's economy, I will assess the volume of trade handled by the port, the employment generated by the sector, and its overall impact on the local and regional economy. By evaluating these factors, I aim to highlight the importance of the shipping sector in ensuring the economic sustainability and growth prospects of the Trieste Free Territory. This detailed examination will provide an understanding of the Free Territory's economic objectives and contribute to its development as a significant economic entity in the post-war period.

Analysis

To assess the economic viability of the Trieste Free Territory as an independent entity it is necessary to evaluate the territory's potential during the transitional period, likely lasting a few years, and the longer-term outlook. To establish this, I will delve into the considerations made by Foreign Ministers through correspondence letters between 1946 and 1947.⁴² To assess the feasibility of establishing an independent territory, it is imperative to consider the perspectives of global leaders, specifically from the United Kingdom, the United States, Italy, France, and the USSR.⁴³ These perspectives are particularly relevant concerning the currency issue, where there was significant international discourse. The consensus among these countries generally favoured Trieste having its own currency and a bank of issue, reflecting a plan towards substantial economic autonomy.⁴⁴ However, given their varying national interests and geopolitical strategies, there will inevitably be disagreements and differing opinions. In addition, it is necessary to investigate both Trieste's economic potential, inclusive of its budgetary prospects, institution of its own currency and bank of issue, resources, and balance of payments. An examination of the population context in terms of employment, wages, and the standard of living is essential to gain insights into the dynamics shaping the socio-economic conditions of the Free Territory. I will delve into the balance of payments and the various industries, specifically the shipping sector within Trieste. This includes evaluating the primary economic sectors and trade dynamics, through the information provided within correspondence letters. Understanding these factors outlines the challenges and opportunities that may arise during the transition to independence. By integrating these diverse yet interconnected elements, the analysis aims to provide a comprehensive assessment of the economic viability of the Trieste Free Territory as an independent entity.

⁴² Bank of England. "Italy: Trieste Free Territory - Currency." 9 Jul 1946 - 10 Dec 1947.

⁴³ Ibid.

⁴⁴ Ibid.

Currency and Bank of Issue

The discourse surrounding Trieste's potential designation as a free territory reveals intricate dynamics among involved nations. While the Americans and British exhibit a harmonised stance, the conspicuous absence of Russian and French participation underscores a void in comprehensive deliberation.⁴⁵ The hesitation, particularly evident among the Americans, towards endorsing a Currency Board reflects suspicion rooted in unfamiliarity with such mechanisms.⁴⁶ The United States demonstrates a commitment to maintaining the existing free supply program until the period of July to December 1947, suggesting a continued investment in Trieste's development.⁴⁷ Furthermore, it finances all military costs of occupation in Trieste, denominated in US dollars, underscoring a significant financial commitment, signalling a tangible investment in the region's stability and development.⁴⁸ Nevertheless, its reluctance to commit to specific quantities or denominations of currency highlights a prudent approach amidst the devaluation of the Italian lira, which is expected to prompt a transition to a new note issue.⁴⁹ Uncertainty exists regarding the United Kingdom's willingness to uphold similar commitments, raising questions about the cohesion of international support.⁵⁰ Its inquiry into sterling settlement for its expenditures signals a cautious approach, reflecting concerns about financial stability and potential currency fluctuations. Moreover, questions regarding the involvement of UK firms in printing new note issues underscore the practical complexities involved in currency management within Trieste.

Common agreement after World War II was that Trieste would have to be provided with its own Bank of Issue and currency which was contingent upon the political constitution of the Zone itself being finalised.⁵¹ With neither Italian nor

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Ibid.

Yugoslav currency applicable in the Zone, the necessity for a new currency and a corresponding Bank of Issue is evident. As the United Kingdom delegation outlines in a secret telegram: 'the free territory shall be entitled to have its own currency.'⁵² The issue of linking Trieste's currency with the lira is pivotal, with immediate severance from the Italian currency posing harm, while maintaining this link formally in the Statute proves politically untenable. On the one hand, the Slav advocate for Trieste to adopt its own currency, likely to circumvent any ties to the lira.⁵³ Conversely, the Americans express a preference for a direct or indirect connection to the lira but currently lack a definitive resolution, suggesting that the issue be deferred for discussion during the provisional regime's deliberations.⁵⁴ The Italians indicated their readiness to supply foreign exchange, contingent upon the preservation of the lira's legal tender status and the enforcement of currency control measures.⁵⁵ However, initiating a currency system linked to the lira may only be viable through transitional measures, with hopes that such an arrangement evolves into a permanent solution. Hence, the decision to withdraw Yugoslav Military Lire and Allied Military Lire from circulation and replace them with Metropolitan lire, facilitated by the Banca D'Italia, was a critical move aimed at normalising the currency situation in the territory.⁵⁶ The issuance of currency, the "Triestuno," backed by gold and under strict regulatory mechanisms, aimed to ensure financial stability and integrity.⁵⁷ By mandating that all government and port authority accounts be maintained exclusively in Triestunos and setting a fixed, internationally anchored exchange rate, the plan facilitated a stable economic environment conducive to trade and reconstruction.⁵⁸ This measure was crucial for restoring confidence in the monetary system, simplifying transactions, and ensuring the viability of the Free Territory as an independent entity.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

The Trieste Currency Plan sought to insulate Trieste from the volatile political and economic environment of post-World War II Europe. Its aims are delineated from the Overseas and Foreign Office as of the 15th of July 1946, them being: (a) independence of national influences and (b) international stability.⁵⁹ Under the guidance of the United Nations Organization (U.N.O.), the proposal entailed the establishment of a government in Trieste with the U.N.O. retaining sovereign authority.⁶⁰ The supreme financial control was to be delegated to the International Reconstruction Bank, which would exercise its control through a locally appointed Representative.⁶¹ This Representative was tasked with establishing an Agency that would function as a Central Bank and Bank of Issue.⁶² The management structure for the Bank of Issue proposes a Board of Control with 10 members representing the capital, one member each from the four major powers, Italy and Yugoslavia, and several representing the Government of the Free Zone.⁶³ This not only reinforced Trieste's position as a pivotal free port but also as a symbol of post-war economic cooperation and rebuilding, showcasing the potential of international governance structures in stabilising and promoting economic prosperity in conflict-affected areas.

However, raising a loan for the initial period of financial dependency may prove challenging without external support. While Trieste's potential membership in the International Monetary Fund and the Bank of Reconstruction and Development could help, it has risks.⁶⁴ Another feasible option would be to gain support from the United Nations to cover deficits but would compromise Trieste's autonomy.⁶⁵ The political ramifications of such decisions are significant, as the need for a United Nations subvention could delay the enactment of the Statute until financial commitments are secured.

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Ibid.

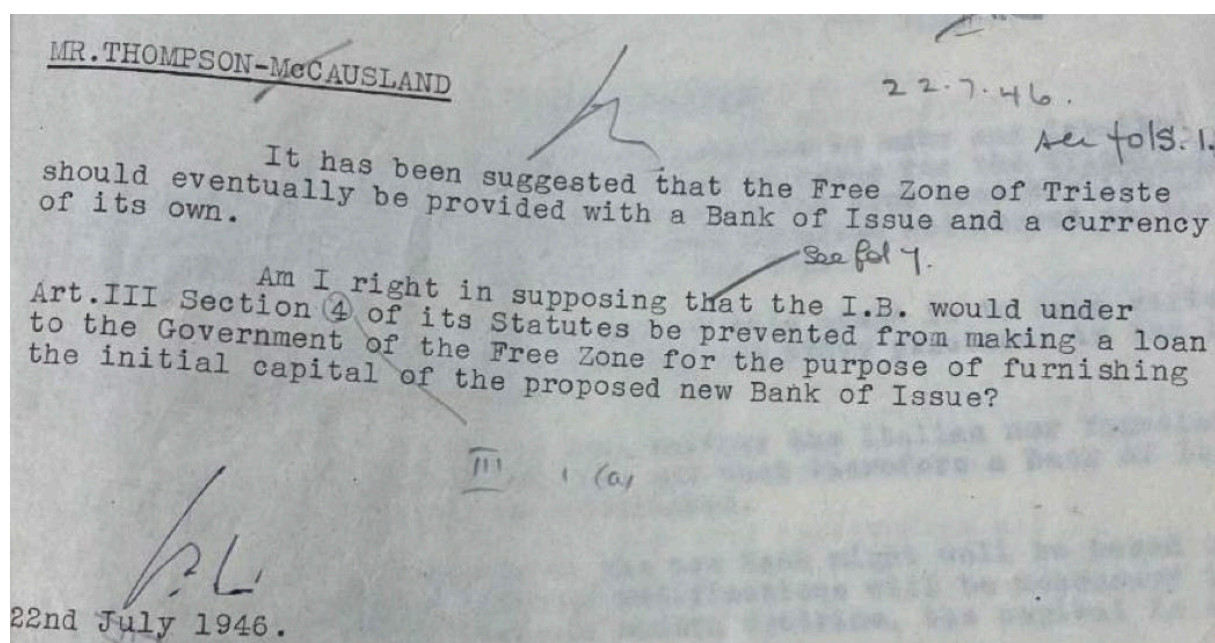
⁶² Ibid.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ Ibid.

Figure 1. Letter from Thompson McCausland



Source: Bank of England. "Italy: Trieste Free Territory - Currency." 9 Jul 1946 - 10 Dec 1947

Mr. Thompson-McCausland in July 1946 writes: 'Am I right in supposing the International Bank would under Article III Section 4 of its Statutes be prevented from making a loan to the Government of the Free Zone for the purpose of furnishing the initial capital of the proposed new Bank of Issue?'.⁶⁶ The potential sources for the capitalisation of this bank are explored with an estimated £500,000 needed, including contributions from the Italian and Yugoslav National Banks or contributions from the UK, USA, USSR, and France.⁶⁷ However, options involving international contributions are deemed likely to result in political complexities. Hence, the best option would be to borrow funds from the Free Zone government but the uncertainty regarding sufficient capitalisation is high. In fact, Mr. Rowe-Dutton outlines how 'Trieste can only qualify for loans or other assistance if accepted as a Member of the Fund and of the Bank'.⁶⁸ Consequently, borrowing emerges as a viable solution, albeit with its own challenges. For instance, borrowing in dollars, with repayment terms to be negotiated or by leveraging future harbour revenues. This proposal's feasibility

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ Ibid.

hinges on understanding trade volumes through the Port of Trieste. The potential longevity of the loan repayment period and its associated political risks are acknowledged, necessitating further analysis. Ultimately, the absence of initial capital from the International Bank poses significant strategic and logistical challenges to the establishment of the Bank of Issue for the Trieste Free Zone.

The difficulty of managing transactions across different currencies highlights the need for foreign exchange and monetary policies in the Trieste Free Territory. A stable and effective currency exchange mechanism is not merely a facilitator of trade but a cornerstone of economic confidence and investment attraction. For example, the establishment of the Euro provided the EU member states with a stable currency that facilitated easier trade and investment flows within the union, reducing transaction costs and exchange rate risk. In the short term, pegging the local currency to a stable foreign currency or a basket of currencies could provide the needed stability.⁶⁹ In the long run, however, the Free Territory might consider developing a more autonomous monetary policy, where the currency's value is managed against a basket of its main trading partners' currencies, allowing for flexibility and stability in response to global economic shifts.

The establishment of a separate foreign exchange control system by the Government of Trieste along with the decision to exercise a monopoly over the purchase and sale of foreign exchange represented a move towards economic sovereignty, enabling the Free Territory to control capital flows and stabilise its economy.⁷⁰ These measures, coupled with the establishment of a Central Bank of Trieste prepared to function as a bank of issue, constituted a framework for monetary policy and economic governance designed to support stable economic growth. Moreover, the requirement for the Free Territory to acquire adequate

⁶⁹ Klaus Regling, Servaas Deroose, Reinhard Felke, and Paul Kutos, *The Euro After Its First Decade: Weathering the Financial Storm and Enlarging the Euro Area*, no. 205 (March 2010).

⁷⁰ *Ibid.*

reserves in gold and foreign currencies underscored the importance of establishing a cushion against external economic shocks and ensuring the new currency's exchange parity.⁷¹ The emphasis on currencies convertible for current account purposes and those significant for the Free Territory's import trade reflects a nuanced approach to safeguarding the new currency's external value, which is crucial for maintaining the confidence of international markets and investors. The implementation of a single exchange rate between the lira and the U.S. dollar aimed to simplify transactions and promote economic stability, reducing the risk of currency speculation and fostering a more predictable business environment.⁷² By aligning this rate with Italy's official rates and export proceeds, the Free Territory sought to balance internal needs with external economic pressures, ensuring that its currency remained competitive and practical for international trade.

Labour and Wages

Following World War II, the creation of the Trieste Free Territory presented a challenge for international governance and economic restructuring. With an estimated population of 360,000 and spanning 83,000 hectares, this territory represented a significant geopolitical and economic entity.⁷³ However, the aftermath of the war presented formidable challenges to its labour market. In 1946, labour statistics underscored the impact of war, with 73,970 registered workers across various sectors, the area was greatly impacted by unemployment, with 31,092 individuals out of work by the end of the year.⁷⁴

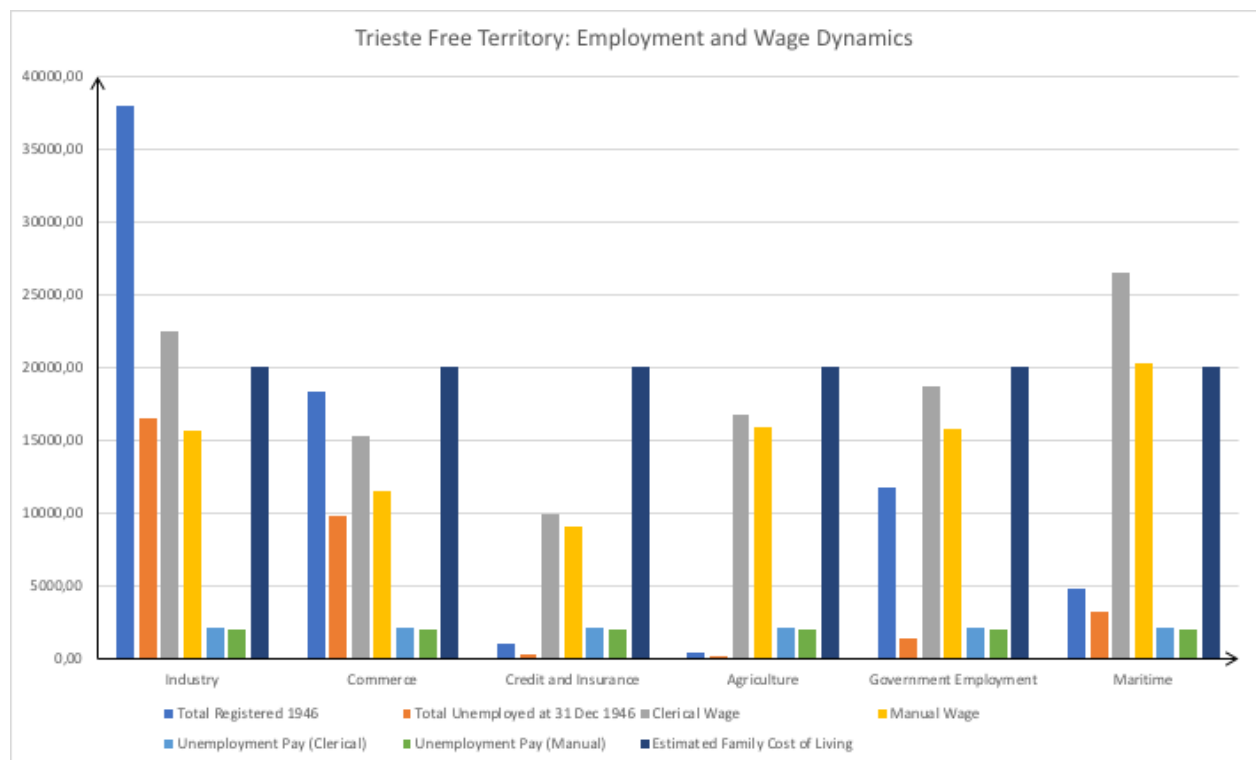
⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid.

Figure 2.



Source: Bank of England. "Italy: Trieste Free Territory - Currency." 9 Jul 1946 - 10 Dec 1947, authors own calculations

The wage data shows a wide range of monthly wages across different sectors and distinguishes between clerical and manual positions. A comparison between the cost of living, estimated to be \$20,000, and wages reveals that numerous families are likely living below recognised standards. The juxtaposition of high unemployment rates with significant wage disparities across sectors reveals the complex labour market dynamics within the Trieste Free Territory. The wage structure hints at the economic strategies employed to rejuvenate Trieste's economy. High wages in sectors such as government employment and agriculture, with clerical wages at \$18,709 and \$16,653 respectively, suggest targeted investments in public administration and agriculture to stabilise these critical areas of the local economy. Meanwhile, the provision of unemployment payments for compulsory insured workers, with additional support per child, reflects a social safety net aimed at mitigating the immediate hardships faced by the unemployed workforce, indicating an early attempt at social welfare policies within the Free Territory. Unemployment pay is \$2,100 for clerical and \$1,950

for manual positions across all sectors, which is significantly lower than the cost of living.

Maritime clerical positions commanded the highest wages at \$26,408, indicative of Trieste's historical significance as a port city and its strategic importance in maritime commerce and logistics. This is contrasted with the relatively lower wages in the credit and insurance sectors, especially for clerical roles, which are \$98,623, highlighting the varying economic vitality and labour valuation across sectors. Furthermore, the wage disparities between clerical and manual positions across sectors highlight the differentiation in labour market value based on skill level and job nature, a common feature in post-war reconstruction economies. For example, in the industry sector, clerical wages are \$22,482 while manual wages are \$15,594. The data suggests that Trieste was navigating its economic revival by balancing between incentivising skilled labour, particularly in administrative and strategic sectors, and ensuring a baseline support for manual labour, crucial for the city's physical rebuilding and agricultural revival.

While the high wages in certain sectors could attract skilled labour and stimulate economic activities in strategic areas, the overall high unemployment of 62,134 underscores the urgent need for comprehensive economic development and job creation strategies. In response to this unemployment crisis, the governing Commission emphasised the importance of quickly integrating the surplus labour force into productive employment. Sectors such as industry, with 16,437 unemployed, and commerce, with 9,708 unemployed, were identified as potential avenues for absorbing the unemployed, possibly through direct hiring or vocational training programs. The establishment of industrial training schools was one proposed solution to equip workers with the necessary skills for new job opportunities.

The Trieste Free Territory maintained a social insurance infrastructure covering various social benefits ranging from old age and invalidism to unemployment and family allowances. The economic burden on the State due to these social

insurance programs was substantial, reflected in the varied monthly allowances provided for individuals and families.⁷⁵ Specifically, allowances ranged from 2,080 lire per month for men without family dependents to 2,600 lire for those with three dependents.⁷⁶ Women received slightly lower rates, from 1,560 lire without dependents to 2,080 lire with three.⁷⁷ Additionally, the system offered unemployment pay at daily rates of 57 lire for labourers and 62 lire for employees, with an additional 8 lire per day for each child.⁷⁸ This demonstrates the territory's commitment to maintaining social stability and worker welfare, critical factors for the creation of the Trieste Free Territory.

Budget

The Commission's examination of the budgetary problems of the Free Territory aims to achieve a balance between revenue and expenditure. The post-WW2 currency depreciation could lead to inflationary pressures, reducing the real value of revenue, hindering international trade and investment thus challenging long-term financial commitments. The jurisdictional division between the Allied Military Government and the Yugoslav Military Government undermines the ability to implement a consistent tax regime, essential for ensuring a steady revenue stream.⁷⁹ This fragmented governance not only disrupts revenue flow but also creates legal uncertainty, hindering investments and prolonging economic stagnation. With government expenditures surpassing current revenues due to inherited Italian taxes, budgetary crises are inevitable. The Government must reorganise its administration and taxation system to enable fiscal planning and management within the territory. Furthermore, the financing mechanisms under the Military Government administration rely on external support. While this may be necessary in the short term, it fails to provide the sustainable fiscal foundation essential for an autonomous state. This could lead to a dependency trap in which the Free Territory of Trieste would be

⁷⁵ Ibid.

⁷⁶ Ibid.

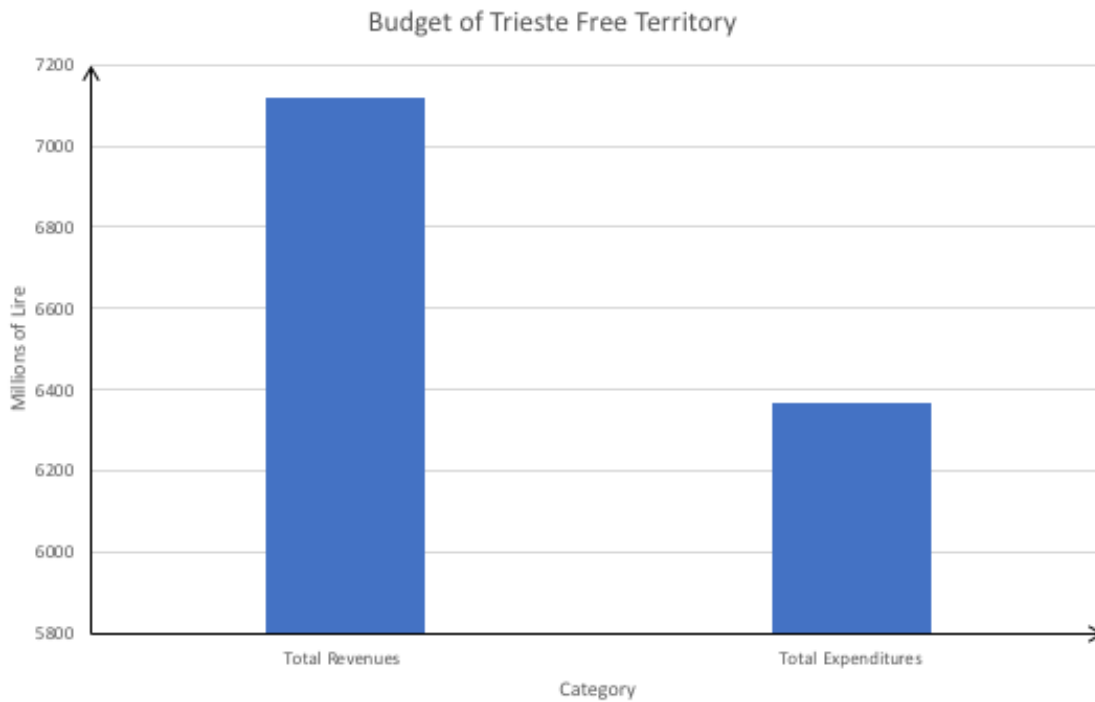
⁷⁷ Ibid.

⁷⁸ Ibid.

⁷⁹ Ibid.

reliant on external sources. Therefore, this undermines sovereignty and hinders the long-term stability and independence of the territory.

Figure 3.



Source: Bank of England. "Italy: Trieste Free Territory - Currency." 9 Jul 1946 - 10 Dec 1947, authors own calculations

In terms of the budgetary position the Trieste Free Territory's contributions to the total budgetary capital of the Venetian Giulia region are significant. The estimated budget of the Free Territory of Trieste, with a total revenue of 7120 million lire and total expenditures of 6368 million lire, suggests a potential surplus of 752 million lire. This surplus indicates that Trieste's fiscal strategy, despite its heavy reliance on direct taxes, income from monopolies, and various indirect taxes, might manage unforeseen expenses and economic fluctuations. The surplus also highlights the government's cautious financial planning, aiming to ensure stability and avoid deficits in post-war economic recovery. However, the allocation towards public works, police, and communal deficit points to substantial investments in infrastructure, security, and addressing inherited financial challenges, which are crucial for the territory's long-term development

and stability. This budget reflects a delicate balance between addressing immediate needs and laying the groundwork for sustainable growth.

The revenue composition of Trieste's budget highlights its economic challenges. Direct taxes, totalling 1570 million lire, reflect traditional fiscal policy but also reveal a lack of flexibility in the tax structure due to post-war economic constraints. The reliance on direct taxes suggests an inability to adapt to the changing economic environment. Income from indirect taxes and excise taxes on goods like radios and gasoline indicate an economy trying to exploit consumer and transactional taxes to maximise revenue. Monopolies generating the highest revenue at 2108 million lire show the government's control over profitable sectors to secure a stable revenue flow. This monopolistic approach might stabilise prices and supply but also risks stifling competition and innovation, hindering long-term economic growth. Nevertheless, revenue streams remain uncertain, vulnerable to the volatility of post-war recovery and of establishing a new tax system. Expenditure allocations prioritise sectors deemed essential for a newly independent territory. The allocation of 1575 million lire to public works outlines a focus on infrastructure development, aimed at job creation and future economic growth. For example, investments in education and police indicate a commitment to improving citizens' quality of life, critical for gaining public trust and support. However, these expenditures might be overly optimistic given the post-war economic situation, which fails to consider unforeseen costs or increased investment in social services. The fiscal strategy and budget allocation for the Trieste Free Territory, though ambitious, is faced with the need for pragmatic fiscal management.

The Government must address its expenditure challenges. Alternative A proposes an aggressive investment strategy in public services, social welfare, and infrastructure.⁸⁰ While this could significantly improve the territory's quality of life and economic potential, it risks creating a substantial deficit.⁸¹ Balancing

⁸⁰ Ibid.

⁸¹ Ibid.

such a deficit would require sustainable financing solutions, potentially forcing the government to explore new revenue streams or seek international loans, thereby compromising financial sovereignty and increasing dependency on external entities. In contrast, Alternative B advocates for a more conservative fiscal approach, with a lower additional reserve for expenditures, minimising the risk of a large deficit.⁸² While this cautious strategy would likely maintain fiscal stability in the short term, it could severely limit the government's ability to make necessary investments in critical areas essential for long-term growth.⁸³ This lack of investment could hinder economic development and perpetuate existing socio-economic challenges. The choice between these alternatives will shape the Trieste Free Territory's fiscal policy and socio-economic development in the long term.

Balance of Payments

The establishment of the Trieste Free Territory had significant economic implications, largely stemming from its reliance on international trade for economic stability and growth. The territory's economy was heavily dependent on neighbouring countries, particularly Yugoslavia and Italy, for the import of essential goods, raw materials for industry, and even basic utilities like water and electricity, primarily due to its limited domestic production capabilities.⁸⁴ This dependency underscored the importance of maintaining a favourable balance of international payments, as most of its economic activities involved transactions with foreign entities. Consequently, the Free Territory's economic model was inherently vulnerable to fluctuations in global market conditions and foreign policy changes. Nevertheless, such reliance raised geopolitical issues which emphasised the need for diversification of economic relations to mitigate risks associated with overdependence on a few countries. The assurances from the Italian and Yugoslav Governments to provide favourable prices for essential imports like food, coal, and steel were crucial for the Free Territory's economic

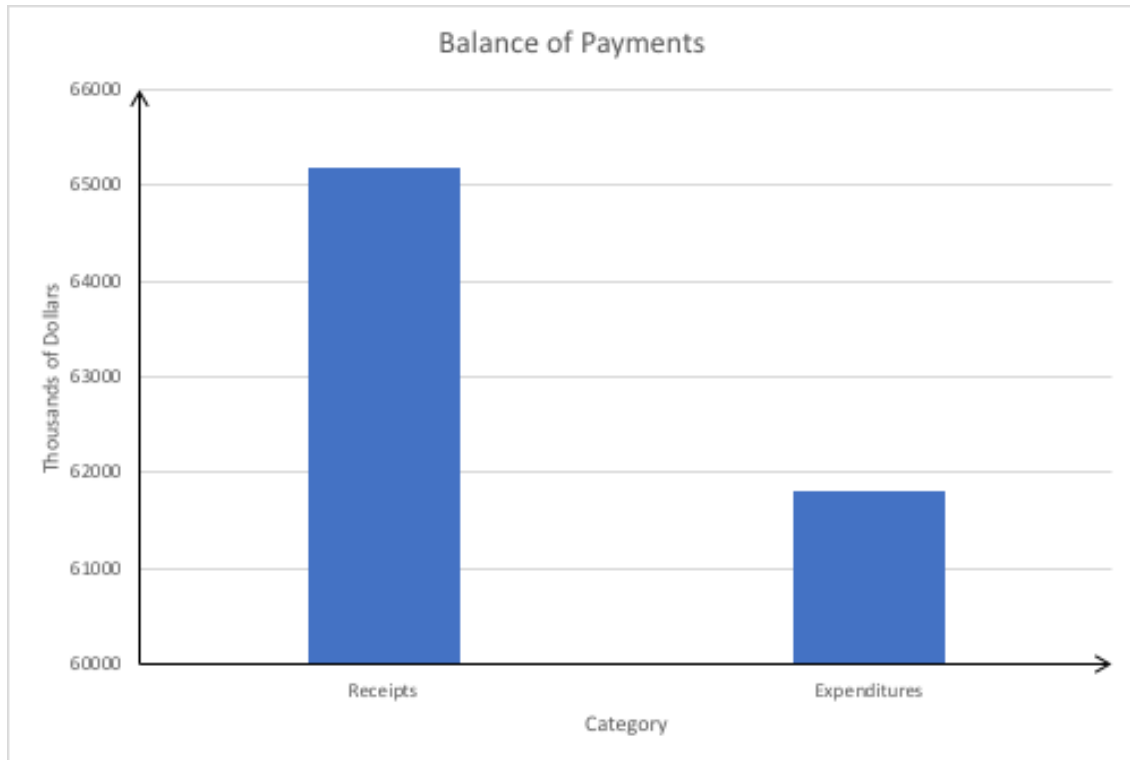
⁸² Ibid.

⁸³ Ibid.

⁸⁴ Ibid.

stability. However, they left the territory susceptible to the political and economic decisions of these nations.

Figure 4.



Source: Bank of England. "Italy: Trieste Free Territory - Currency." 9 Jul 1946 - 10 Dec 1947, authors own calculations

The balance of payments for the Trieste Free Territory offers an overview of its economic interactions depicting its financial health and international relationships. With total receipts amounting to \$65,190,000 and expenditures at \$61,800,000, the Free Territory has a surplus of \$3,390,000, suggesting economic stability and potential for sustainable growth.

Receipts highlight the Free Territory's engagement in international trade, particularly with compensation countries, indicating robust trade relationships that could be leveraged for economic growth. This heavy reliance on exports, while beneficial, exposes the economy to global market fluctuations, necessitating a diversification strategy to mitigate potential risks. The receipts from shipbuilding and repairs, amounting to \$14,350,000, reflect a specialised

industry that has the potential for further development, through global demand for maritime services and infrastructure. Investing in this sector could yield dual benefits of enhancing export capabilities while also bolstering domestic economic resilience. Furthermore, the \$6,400,000 generated from port activities emphasises Trieste's strategic importance as a maritime hub, capable of boosting the Territory's economic prospects through trade facilitation and logistics services.

Expenditures reveal Trieste's economic dependencies and priorities with the largest share allocated to consumer goods, \$24,000,000, and raw materials, \$29,650,000, indicating a dependence on imports to meet domestic demand and support industrial activities. This heavy reliance on imported goods suggests an economy that is currently consumer-oriented, with a significant portion of its financial resources directed towards satisfying the immediate needs of its population and supporting the foundational requirements of its industrial sectors. The expenditure on machinery and equipment, \$5,000,000, highlights an investment in capital goods, essential for the modernisation and expansion of the Territory's industrial base. However, this also underscores the challenges of developing a self-sustaining industrial economy capable of reducing import dependence. Additionally, investments in government expenditure and infrastructure, such as electric power and water, \$1,500,000, reflect the Territory's commitment to building its administrative capacities and essential services, which are crucial for long-term development. These expenditures paint a picture of a Territory focused on building its economic foundation, towards future industrial expansion, yet currently grappling with the balance between import reliance and the cultivation of local industries.

The shipbuilding industry has the potential to earn significant foreign exchange with an anticipated payment of \$7.5 million indicating an influx of capital. However, war damages and ongoing reconstruction posed challenges outlining the importance of diversifying production and engaging in the manufacturing of different types of machinery not only aimed at restoring pre-war capacities but

also at entering new markets, thereby potentially improving the balance of payments by increasing exports.⁸⁵ This also hindered full capacity operations of the shipbuilding sector which should be addressed through expedited reconstruction, enhancing the shipyards' capabilities thus increasing foreign exchange earnings and employment, boosting the local economy. The dependency on foreign orders also indicates a shift towards external economic relations, pivotal for the Free Territory's balance of payments.

Regarding port activities, the intended adjustments to the rate structure, harbour, port charges, and railroad rates were strategic moves intended to enhance the competitiveness of the Port of Trieste. By ensuring that charges were aligned with or more favourably than those of neighbouring ports, the Free Territory aimed to attract more international trade and shipping, which would boost foreign exchange earnings. The emphasis on maintaining competitive rates and ensuring the remittance of payments to the foreign exchange control underscores a focus on improving the Free Territory's balance of payments through increased port activity. Furthermore, the mechanisms put in place to report infringements and control foreign exchange were crucial for maintaining the integrity and financial stability of the Free Territory's port operations.

The shipping sector was highlighted as the largest source of foreign exchange for the Free Territory, with a strong potential for revenue to remain high in the future. Recommendations by Foreign Ministers for assistance from other governments in acquiring more vessels were aimed at expanding the capacity of the Free Territory's merchant marine, which would not only increase direct earnings from shipping but also stimulate additional economic activities through increased transit shipments.⁸⁶ Furthermore, the requirement of having all foreign exchange earnings from shipping companies deposited with the foreign exchange control reflects a strategy to safeguard and increase the territory's

⁸⁵ Ibid.

⁸⁶ Ibid.

foreign exchange reserves.⁸⁷ However, a critical issue is raised with the cessation of Italian subsidies, Trieste's shipbuilding industries confront significant challenges. This was emphasised by the separation from Italy's customs zone, potentially impeding the sale of ships, hence impacting their market viability. Even if the shipping sector manages to rebound to their 1938 performance levels, Trieste may encounter difficulties in its financial management, its municipal budget, sustaining social services, and addressing the additional expenses associated with establishing itself as an independent entity.

The economic capabilities of Trieste centre around the development of the Free Harbor and its role in facilitating trade and commodity markets. However, a determinant of the territory's economic trajectory lies in the political disposition of neighbouring countries such as Yugoslavia, Austria, Hungary, Switzerland, Germany, and Italy itself.⁸⁸ If any of these nations fail to provide Trieste with adequate resources, the territory would suffer adverse consequences in its ability to thrive as an independent economic Free Territory. Trieste will undergo a period of financial dependence during the transition phase, worsened by its economic separation from Italy. Due to such uncertainty Trieste might require reconstruction loans, subsidies to offset deficits during the transitional phase, and longer-term financial assistance.

For a long-term perspective, Trieste should have the potential to reclaim a status like its position under the Austro-Hungarian Empire. If neighbouring countries actively engage with Trieste by utilising its port, trading facilities, and services, there is substantial potential for Trieste to reclaim its pre-1914 eminent position in the Adriatic region. Revisiting Trieste's status as a free harbour is crucial, given its pivotal role as the primary southern outlet for the old Austrian Empire before 1914.⁸⁹ With the removal of German influence, there is optimism that Austria will once again utilise Trieste as its natural outlet.⁹⁰ However,

⁸⁷ Ibid.

⁸⁸ Ibid.

⁸⁹ Ibid.

⁹⁰ Ibid.

uncertainties arise regarding the intentions of Yugoslavia, Germany, Hungary, Switzerland, and Italy, with prospects for trade with the latter two countries showing potential while others appear less favourable.

The involvement of Russian and Yugoslav entities in the Trieste question raises doubts about their genuine acceptance of internationalisation. Rather than embracing it as a means of fostering impartial governance, there are suspicions amongst leaders that they might view it merely as a strategy to sidestep opposition from Anglo-United States forces aiming for Trieste's incorporation into Yugoslavia.⁹¹ Their actions appear to be geared towards gaining political control over the territory, potentially undermining its intended status as a free and neutral entity. Of particular concern is the disregard shown by Russian delegates towards provisions aimed at ensuring U.N. supervision, impartial governance, and protection of minority rights within the statute.⁹² This disregard underscores fears that their intentions may prioritise political control over the well-being and rights of the diverse population inhabiting Trieste. Hence, the economic implications of establishing the Trieste Free Territory were marked by a complex interplay between international dependencies and the overarching political agenda of neighbouring powers.

Conclusion

This research set out to explore the economic implications of establishing the Trieste Free Territory after World War II, as reflected in the correspondence between country leaders during that period. By analysing first-hand accounts and internal reports, I sought to understand the decision-making process and the feasibility of Trieste's economic independence. The analysis demonstrated that Trieste's economic viability was influenced by its dependencies on surrounding nations but there was optimism about Trieste's potential for economic self-sufficiency due to its strategic location and industrious population. The

⁹¹ Ibid.

⁹² Ibid.

correspondence between key political figures such as the Foreign Ministers of the United States, United Kingdom, Italy, France, and the U.S.S.R. illustrated the complexities and competing interests that shaped their decisions. The findings of this research have implications for the Trieste Free Territory highlighting the challenges faced by small territories in achieving economic independence amidst competing national interests and international pressures. It underscores the significance of international cooperation and the impact of global politics on local economies, providing an understanding of how post-war reconstruction efforts were influenced by broader geopolitical strategies. This reinforces elements of secondary literature that highlight the geopolitical complexities and international governance challenges faced by the Trieste Free Territory. For example, Kunz's analysis of Trieste as a geopolitical compromise and Velisavljevic's exploration of American diplomacy are supported by this study's findings on the international negotiations and strategic considerations. However, this research also challenges secondary literature by examining local economic impacts, such as labour market conditions, wage disparities, and the socio-economic disruptions highlighted by historians like Unger and Gove. Overall, this research paper contributes to the historiographical debate on the Trieste Free Territory. Furthermore, it elucidates how power dynamics and the geopolitical context influenced local economic challenges in contested territories like Trieste.

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