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Cost Accounting for War: Contracting Procedures and Cost-plus Pricing in WWI Industrial Mobilization in Italy

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Abstract

The aim of this paper is to explore the role played by cost accounting in Italy's Industrial Mobilization system and in the largest firm manufacturing weaponry, Ansaldo of Genoa, during WWI. While in other countries such as the UK and the USA, efficiency in buying and managing war material was an important part of military strategy, in Italy, various factors impeded it. This paper focuses on contracting procedures adopted by the Ministry of War and Ministry of Munitions and looks at the cost accounting practices in Ansaldo to see how costs were determined and how prices were set. We found a paradox. On the one hand, despite knowledge of costing, the government did not impose cost controls on the producers of war material, nor on their profit rates. On the other hand, examining Ansaldo's cost sheets we discover they underestimated their production costs leading the firm to losses despite its favorable political position. This

paper contributes to the theoretical debate about the relationships between accounting and war in the Italian context where lobbying, collusion, bribery and private interests dominated the administrative behavior of public and private actors instead of efficiency, accountability and honesty.

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Notes

1 The archive originated from a donation of the Perrone family, the owners of Ansaldo up to 1922. After WWI, during the inquiry against Ansaldo, the entire archive was transferred, preserved and classified during the proceedings of the Parliamentary Commission of Inquiry on War expenses.

2 According to Canziani (2006, p. 10), the growth of Ansaldo had reduced its competitor Terni's market shares in the fields of forgings, plates, artilleries and cuirasses, Terni's former monopoly. Ansaldo meanwhile, in pursuing its vertical integration strategy, and setting up huge rolling-mills, had made itself independent from the ILVA monopoly of rolled material.

3 Pio Perrone denied all charges and supported the accuracy and honesty of the deal with two memoranda that remain in the company's archive (FA FP, 1956, 1958).

4 The newspapers were: ‘Il Secolo d'Italia’; ‘Il Corriere Mercantile’; ‘Il Mezzogiorno’; ‘Il Fronte Interno’; ‘Il Messaggero' and ‘L'Idea Nazionale’.

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