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23 September 1974

MEMORANDUM FOR:

[Redacted]

SUBJECT : Background Materials on Italian Economic and Political Problems

1. Attached are some articles on Italian economic and political developments prepared by the Office of Economic Research and the Office of Current Intelligence in the past few months.

2. [Redacted]

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Office of Economic Research

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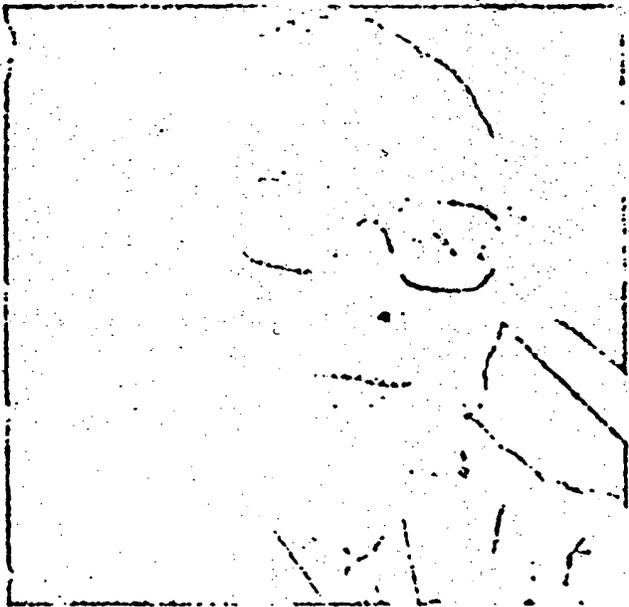
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ITALY: AUSTERITY POLITICS

The dominant Christian Democratic Party has papered over its internal differences, but the political and economic situation remains unsettled as the Communist Party and organized labor seek to force changes in the government's austerity program.

Developments at the Christian Democrats' National Council meeting late last week should postpone further challenges to the party leadership until the fall. The outcome also deferred the question of closer ties between the government and the Communist Party. ~~But the Christian Democrats' internal differences, which have been controlled for a moment, are far from resolved.~~

The Christian Democratic left stressed its dissatisfaction with the party leadership, but it was apparently constrained by the realization that an open left-right split within the party could jeopardize Prime Minister Rumor's efforts to steer the government's economic program through parliament. In addition, the party's most influential left-of-center leader—Foreign Minister Aldo Moro—decided not to break with party chief



Prime Minister Rumor

Amintore Fanfani at this time and thus made it impossible for leaders further to the left to turn their dissatisfaction into an effective challenge.

The left joined in supporting a ~~stand~~ resolution that affirmed traditional party positions in general terms and emphasized once again the ideological differences separating the Christian Democrats and the Communists. Some left-wing leaders, however, made it clear during debate that they favored a more open attitude toward the Communist Party. Minister of Industry De Mita went so far as to call for an undefined "accord" with the Communists, while others labeled the Communists "democratic" and argued that national sovereignty would not be "wounded" if they were to enter the government.

Just before the Christian Democrats met, the country's three major trade union confederations decided to press for changes in the austerity program. The changes that labor wants resemble amendments to the program now being pushed in parliament by the Communists. Their common goal is to reduce the impact of the program on lower income groups and to increase the burden on the wealthy. ~~The Communists are trying to achieve this objective by a parliamentary strategy designed to exploit differences among and within the governing parties without causing a formal split in the coalition. There is some concern in Communist circles, however, that Socialists in the coalition who support the Communist effort could precipitate a government crisis by pressing too hard.~~

~~There is room for compromise between the two sides.~~ The government could accept some of the proposed changes in the austerity program without seriously jeopardizing its goal to boost taxes by \$4.7 billion. A few of the proposals, however, such as reducing the increases in utility rates, would cut into the heart of the program by undermining the objective of reducing domestic demand.

The conflict over the austerity program could still cause trouble, but this appears unlikely

POOR ORIGINAL

ITALY: AUSTERITY BEGINS

Prime Minister Rumor's government approved a package of austerity measures last week, but the coalition will have to clear some major hurdles if the program is to deal effectively with Italy's mounting economic problems.

The austerity program provides for an increase in corporate taxes from 25 to 30 percent and an increase in some categories of personal income tax along with measures to improve the tax collection apparatus. The value-added tax on some basic consumer items and on luxury goods will be raised substantially. Gasoline taxes will increase by 25 cents per gallon bringing the cost of premium to about \$1.80 per gallon, and employer and employee contributions for health services will go up.

These increases are designed to raise government revenues by \$4.7 billion. Most of the funds will be used to lower the large budget deficit.

The program is a first step toward the goal of improving Italy's international credit standing. The new tax measures will dampen domestic

demand and, if government estimates are accurate, will hold growth of the gross national product to between 3 and 4 percent per year and reduce imports somewhat over the next 12 months.

Whether the program actually meets these objectives, however, will depend largely on the degree of cooperation from organized labor and the public generally, as well as on the government's ability to administer the intricate program effectively. The three labor confederations are united in their dislike of the program, which they fear will result in increased unemployment and more inflation. They are divided, however, over how far labor should go in trying to bring about changes. Some labor factions are prepared to call a general strike while others are counseling moderation. The three confederations will meet this weekend to formulate an official response to the government's proposals.

Even if labor goes along, the government will face the formidable task of implementing the austerity measures. The Italians are notoriously adept at circumventing taxes; most are probably unwilling to accept a decline in their present level of consumption for the sake of the abstract concept of national welfare. This factor, combined with the cumbersome nature of the Italian bureaucracy, could hinder the government's efforts to produce results rapidly. The support that does exist for the program could evaporate quickly in the face of rising prices and diminishing disposable income.

Although the coalition parties are publicly committed to support the program, the political scene remains tense. The Socialists have made their support contingent upon acceptance of this program by organized labor. The dominant Christian Democrats, meanwhile, are preoccupied by a serious internal quarrel. Party leaders are sharply divided over the implications of Christian Democratic defeats in the divorce referendum and the Sardinian regional election. The left-wing—about 30 percent of the party—is in open revolt against the leadership of Amintore Fanfani. These issues will be hotly debated by the National Council—the party's highest executive body—when it meets on July 18.



Rumor

Parozzina

POOR ORIGINAL

ITALY

The postponement of the Christian Democratic Party's National Council meeting, originally set for today, is indicative of the serious internal quarrel that now preoccupies the party. The council--the Christian Democrats' highest deliberative body--will meet instead on July 18.

Christian Democratic leaders are sharply divided over the implications of the setbacks suffered by the party in the divorce referendum on May 12 and the Sardinian regional election in June. The Christian Democratic left, along with some moderates in the party, views these defeats as evidence that the party must respond more effectively than in the past to the desire of the electorate for innovative social and economic programs. The feeling is widespread that the party must also find new and younger faces to replace, or at least augment, the stable of older Christian Democratic personalities who have dominated the party for years and account for the "musical chairs" quality of postwar Italian governments. Many Christian Democrats fear that the party risks losing the dominant position it has held since the end of World War II if it does not act on these issues.

The debate has come to center on 66-year-old party leader Amintore Fanfani. During most of his long career, Fanfani was associated with the party's left-of-center elements, but he has recently acquired a more conservative image. Criticism of Fanfani is rife within the party's left wing, which holds him personally responsible for the downturn in Christian Democratic fortunes. Whether the left is able to pose a real threat to Fanfani, however, will depend mainly on the position taken by the most influential of the party's left-of-center leaders--Foreign Minister Aldo Moro. There are signs that Moro will join the opposition to Fanfani, although perhaps not until next fall.

The Christian Democrats' weakened position has also exposed them to increased pressure from their Socialist coalition partners and from organized labor. The Socialists have become more assertive in coalition deliberations and may push eventually for some of the more important ministries traditionally held by the Christian Democrats. The labor confederations, meanwhile, will meet next week to formulate an official response to the government's austerity program. Labor is likely to press for sharp cuts in the vast state bureaucracy--one of the Christian Democrats' main power bases.

The Communist Party is divided over how best to exploit the situation. The party secretariat, however, reportedly has ordered that no action be undertaken that would worsen the Christian Democrats' internal crisis or lead to a change of government before next fall. Communist chief Berlinguer feels that overly aggressive Communist moves at this time might encourage a shift to the right within the Christian Democratic Party.

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