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Briefing Book

for

Secretary of Labor W. J. Usery, Jr.,

for the June ILO and World Employment Conference

May 1976

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ITALY: THE POLITICAL-ECONOMIC SCENE IN EARLY 1976

Current Political Dynamics

Italian political leaders are preoccupied with one overriding issue as they prepare for the seventh postwar parliamentary election on 20 June; for the first time the Communists have a real chance to replace the Christian Democrats as Italy's largest party and to acquire a share of power at the national level.

The air of uncertainty characterizing the current Italian political scene is traceable to the unprecedented gains scored by the Communist Party in nationwide local elections last June. By coming within 2 percentage points of the Christian Democrats, the Communists telescoped a process that they and their opponents thought would take years. Had the Communists gained in June at the same average rate as in previous local and national elections, the party would not have achieved its present strength – 33.4% in the regional voting – until the early 1980s.

The time stolen by the Communist surge thus deprived Italian politicians of a luxury to which they had become accustomed over the years: the freedom to postpone difficult political decisions. The possibility that the Communists will emerge from the parliamentary election as Italy's largest party brings Italian political leaders face to face with a problem they assumed could be deferred. The resulting scramble to settle on policies to deal with the Communists has deepened divisions among and within the non-Communist parties. National congresses held last month by the Christian Democrats and the Socialists did little to improve the situation.

Period of Transition

In a more general sense, Communist gains have pushed the Italian political system out of one era – the 12-year period of rule by four center-left parties – and into another, in which the political rules are not yet clearly defined. The system has experienced such a shift twice before in the postwar period: in 1947, when the expulsion of the Communists from the government ushered in more than a decade of conservative centrist coalitions, and in 1963, when the admission of the Socialists to the government initiated the center-left cabinets that were the rule until this year.

The transition that is taking place now differs fundamentally, however, from the previous ones. The Christian Democrats' dominant position – sacrosanct during both the centrist and center-left coalition eras – is under serious challenge for the first time. The underlying theme of the Socialist congress last month was the party's determination to ensure that the next government, whatever form it takes, is not based on Christian Democratic hegemony. The center-left formula – Christian Democrats, Socialists, Social Democrats, and Republicans – is seen by the Socialists as the Christian Democrats' means of maintaining dominance and thus was declared "finished and buried" by the Socialist congress.

The Socialist Alternatives

The Socialist prescription for the future has not been cast in categorical terms but, rather, is designed to keep the party's remaining options open. For the near term, the Socialists have declared their willingness to enter another government with the Christian Democrats. They have made it clear, however, that they would insist on government influence commensurate with their pivotal role in assuring the Christian Democrats a non-Communist majority in parliamentary voting. In practice, this would mean more important cabinet posts and a larger say in the formulation of policy, particularly in the economic field. In brief, the Socialists want the Christian Democrats to treat them as political equals, even if it means dropping the Social Democrats and Republicans from the coalition.

The Socialists also have refused to participate in any government that excludes Communist support as a matter of principle, as all governments have since 1947. The Socialists are not pushing for Communist membership in the government; rather, they are trying to force the Christian Democrats to abandon the practice of seeking behind-the-scenes support from the Communists while professing opposition to them in public. The Socialists want these consultations brought out into the open in order to pin some responsibility for government actions on the Communists. Otherwise, the Socialists are convinced that their own role will gradually shrink and that Communist chief Berlinguer will be able to lay the groundwork for the alliance that he wants with the Christian Democrats – the so-called "historic compromise." The Socialists are likely to call for an arrangement that would involve open Communist participation in the formulation of government programs and, in effect, make the Communists part of the governing parliamentary majority.

The Socialists also have made it plain that they see any future cabinet cooperation with the Christian Democratic Party as a mere stop along the way to the ultimate Socialist goal: a coalition of leftist forces, including the Communists, that would replace the Christian Democrats as the major political force. Socialist chief De Martino is presenting the leftist alternative as a distant possibility, noting that it would not be feasible until the Socialists had gained enough votes – they won 12% last summer – to minimize the risk of domination by the Communists. In addition, De Martino says that the Communists would have to cut their last ties to Moscow. The left is, moreover, still far from a parliamentary majority, although an eventual Communist-Socialist majority is a more realistic possibility than at any previous time.

The heavy stress that De Martino is placing on the leftist alternative reflects not only a desire to keep the party's options open but also his recognition that most of the Socialist rank and file stand to the left of the national leadership. The rank and file appear on the whole to be ready to cooperate with the Communists now at the national level; they are already doing so in 6 of the 20 regions and in most major cities.

Divided Christian Democrats

The Christian Democratic congress revealed that the party is united in its desire for a new alliance with the Socialists but still deeply divided over how to deal with the Communists.

The vote for a new party leader showed the delegates split almost evenly into two groups. Party leader Zaccagnini was narrowly reelected by a coalition drawn largely from the left. The rest of the delegates, mainly center-right in orientation, supported Defense Minister Forlani.

The differences between the two groups flow mainly from their positions on the Communist question. Both oppose Communist entry into the government, but Zaccagnini's supporters generally see continued confrontation with the Communist Party as a counterproductive strategy. They want to open a dialogue that would cast the differences between the two parties more in terms of bread-and-butter issues than ideology and possibly lead to compromises on major questions. Those who backed Forlani argue that such a policy would amount to a softening of the Christian Democrats' traditional opposition to the Communists and would ultimately make it more difficult to keep them out of the government.

The narrowness of Zaccagnini's victory means that he will probably have trouble implementing his desire to initiate a dialogue. Zaccagnini's majority in the national council – the party's chief deliberative body – is slimmer than that of any recent party leader. He will probably have to make substantial concessions to the center-right group that opposed him.

The Communist Party, meanwhile, continues to make effective use of the public squabbling among the other parties to buttress its assertion that a new type of majority, including the Communists, is essential to deal with Italy's economic problems. Communist leader Berlinguer apparently has decided to deemphasize his longstanding "historic compromise" proposal, which calls for a Communist-Christian Democratic alliance, in favor of a broader grouping. Apparently hoping to avoid frightening uncommitted or wavering voters, he has proposed creation, after the election, of an emergency government that would include all parties except the neofascists.

A Collage of Economic Troubles

Political impasse has added to Italy's worst postwar economic plight. In the past few years, the economy has struggled to adapt to a large redistribution of income favoring labor and to higher energy prices. The government, in increasing disarray, dealt in stopgap measures and did little to help the adjustment. As a result, price increases consistently have outpaced those in most other major industrial countries, and the belief has persisted that the current account deficit would blossom anew when economic recovery took place. With the economic outlook already shaky, the political crisis that led to the fall of the Moro government in January spawned anxiety in financial circles and led to a run on the lira.

The Lira in Trouble

To prevent a plunge in the value of the lira in the face of massive capital outflows, the Bank of Italy spent nearly $1 billion in the six weeks before it stopped intervening on 21 January. By then, reserves were down to a bare minimum, and the speculative attack showed no sign of ebbing. During the next six weeks, no official quotations were given.

Rome used the suspension period to impose sweeping new monetary regulations and formulate an economic stabilization program to prop up the lira. Higher bank reserve requirements were adopted to limit monetary growth, and curbs on export credit were imposed. These measures are designed to syphon off $1 billion in domestic liquidity and limit the growth of credit to 13% in 1976, less than the expected rate of inflation. The government also espoused greater fiscal responsibility in the public sector and a watered down incomes policy.

The lira nevertheless has continued to be in trouble since the Bank of Italy resumed official quotations on 1 March. In the first week of trading, Rome sold about $200 million to support the lira, reducing by about one-third its remaining foreign exchange reserves. Even so, the lira continued to fall, reaching a low of 888 per US dollar on 17 March. The announcement of more austerity measures a few days later gave the lira a psychological boost; but that respite was short lived. With the resignation of the Moro government and the scheduling of early elections, the lira resumed its downward course, dropping to the astounding low of 917 against the dollar in early May.

To prop up its sinking currency before the elections, Rome imposed between 5-7 May an import deposit plan, an export financing scheme, and additional currency controls. The import deposit plan requires importers and others dealing in foreign exchange to deposit half the value of their foreign purchases in noninterest bearing accounts at the central bank for three months. Imports financed by external borrowing are exempt from this deposit requirement. This restriction, besides discouraging the outflow of foreign exchange, should sop up domestic liquidity and help reduce the money supply. The blocking of funds on such a major scale will exert further pressure on bank interest rates – already at 15% and more – and increase the financing problems of small businessmen.

To increase the inflow of foreign exchange, Rome has imposed additional export financing rules and currency controls. Exporters are now required to obtain 30% of the value of any export credit in foreign currencies. Furthermore, all foreign currency receipts must be converted into lire within seven days of acquisition. The Bank of Italy has also prohibited short-term lira loans to foreign banks as a way of stemming speculation.

The lira rebounded after the imposition of these latest measures. It is now hovering at about 850 against the US dollar. Since mid-January, the trade-weighted exchange rate of the lira has depreciated about 20%.

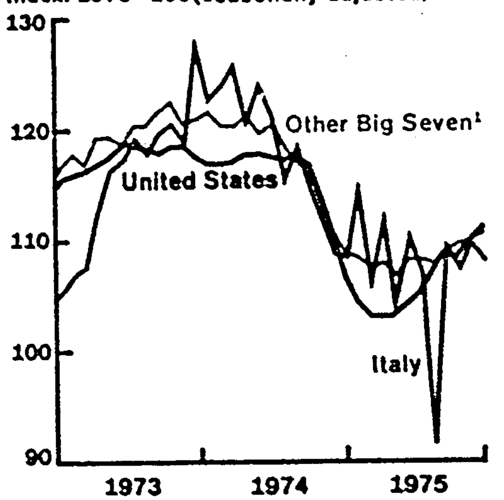
Setback in Trade Accounts

The latest declines in the lira have been precipitated not only by political anxiety but also by bad news on the trade front. Past devaluations have driven up import prices, and numerous businessmen have used the trade account to hide capital flight by padding import invoices. The first quarter trade deficit this year at $743 million (seasonally adjusted f.o.b./f.o.b.) contrasts sharply with a $9 million surplus in January-March 1975.

Italy: Selected Economic Indicators

Industrial Production

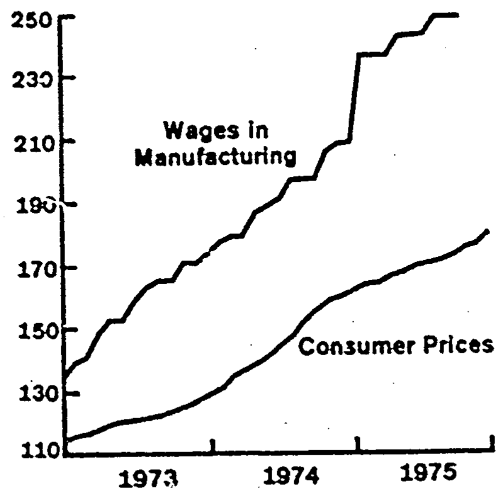
Index: 1970=100(seasonally adjusted)



[1]Canada, France, United Kingdom, Japan, West Germany

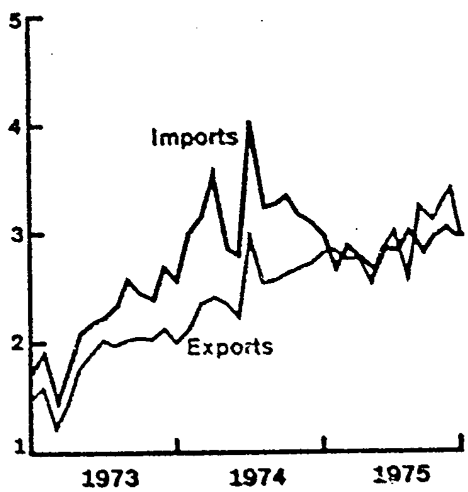
Prices and Wages

Index: 1970=100 (not seasonally adjusted)

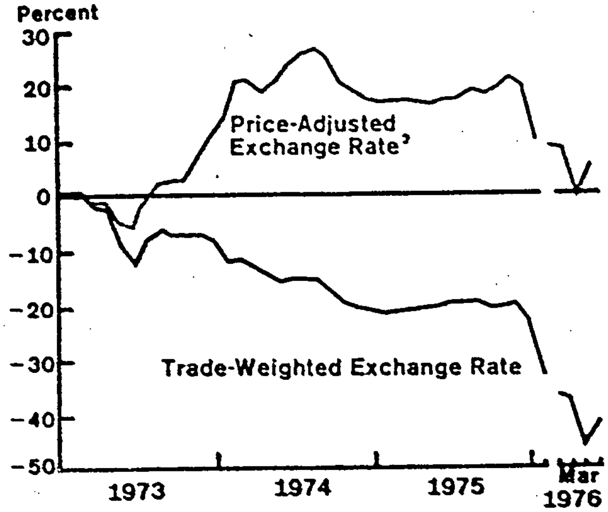


Foreign Trade

(Billion US $ f.o.b. seasonally adjusted)



Trade-Weighted and Price-Adjusted Exchange Rate[1]



[1]Compared with 19 March 1973.
[2]Trade-weighted exchange rate adjusted for changes in Italian wholesale prices relative to those in trading partners. An increase in the price-adjusted exchange rate implies a decline in competitiveness.

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The recent deterioration in the trade accounts follow a period of remarkable improvement in Italy's foreign accounts. Declining domestic demand and improved terms of trade enabled Rome to shift from an $8 billion trade deficit in 1974 to near-equilibrium in 1975. Behind the overall improvement was a dramatic shift in Italy's non-oil trade balance – from a $1.4 billion trade deficit in 1974 to a $6 billion surplus in 1975. Italy's oil trade deficit registered only a moderate improvement over the $6.6 billion incurred in 1974. On current account, Italy's surplus was roughly $200 million in 1975, compared with a $7.3 billion deficit in 1974.

Underlying the Lira's Decline

The root cause of the lira's plight is Italy's severe and persistent inflation. Even in the midst of Italy's deepest postwar recession, consumer prices climbed an average 17% in 1975. Inflation, in turn, has its roots in the massive power of Italian labor and the swelling of government indebtedness.

A key factor in inflation has been skyrocketing unit labor costs, which reflect increased muscle in the labor union movement in recent years. Since 1970, unit labor costs have climbed 16% annually – the highest rate among major industrial countries (see the table). With large social security contributions and generous fringe benefits adding 72 cents to each dollar paid in wages, Italian unit labor costs are now among the highest in Western Europe.

As Italian labor unions have become increasingly powerful in the 1970s, they have learned to work together for common economic and social goals. Since 1972, the three major unions have been linked in a loosely organized federation, which acts as their common bargaining agent.

Together, the unions have pushed through sharp wage hikes for their members, gains which have spilled over into nonunionized sectors. Assisted by automatic escalator clauses to compensate for price increases, real industrial wages have risen an estimated 40% since 1970. This ranks as the steepest rise among industrial countries except for Japan, which began the decade with the lowest wage costs among the Big Seven. Even recession did not quell the unions' ability to win hefty pay hikes. In last year's depressed labor market they managed to obtain a 25% increase in nominal wages, leading to a considerable jump in real purchasing power. King-size rises in the money wages of public employees helped swell an already sizable government deficit.

Developed Countries: Unit Labor Costs and Labor Productivity[1]

	Canada	France	Italy	Japan	United Kingdom	West Germany
			1970 = 100			
Unit labor costs[2]						
1971	100.8	106.4	112.1	111.7	109.0	108.7
1972	104.0	111.4	118.6	119.7	118.4	114.1
1973	109.7	119.7	133.3	126.0	125.4	120.9
1974	121.1	138.1	159.3	163.2	150.2	134.8
1975	138.0	170.6	208.7	191.9	194.5	146.9
1976	151.8	182.5	246.3	203.4	221.7	152.8
			Percent			
Average annual growth rate in 1971-75	6.7	11.3	15.8	13.9	14.2	8.0
Growth rate in 1976	10.0	7.0	18.0	6.0	14.0	4.0
			1970 = 100			
Labor productivity[3]						
1971	105.7	105.2	104.3	103.5	104.7	104.8
1972	111.2	112.3	113.0	111.9	108.9	111.6
1973	115.5	118.8	124.4	132.2	116.6	119.2
1974	117.0	120.4	130.6	136.2	117.0	122.9
1975	118.8	116.8	127.0	133.1	115.2	123.9
1976	122.4	123.8	129.5	139.8	116.4	130.1
			Percent			
Average annual growth rate in 1971-75	3.5	3.2	4.9	5.9	2.9	4.4
Growth rate in 1976	3.0	6.0	2.0	5.0	1.0	5.0

1. Data for 1970-74 obtained from Bureau of Labor Statistics; 1975 estimated and 1976 projected by OER.
2. In national currency units.
3. In output per man-hour.

The frequent strikes employed to enforce union demands have been carefully orchestrated to maximize production disruptions while minimizing worktime lost. Production costs have suffered in the process because employers are unable to scale down operating expenses. Increased absenteeism since 1972 – when the government passed legislation making it illegal for employers to require proof of illness – has cut into productivity growth. Labor disruptions combined with the recession-led dropoff in capacity utilization to force an actual decline in productivity last year.

In the long run, Rome cannot hope to come to grips with its inflation problems unless ~~drastic~~ steps are taken to scale down the level of its own debts. In 1964-74, the Treasury borrowing requirements averaged 6.5% of GNP, the highest ratio in the major developed countries. In recent years, the debt burden has increased markedly. In 1975, the Treasury's cash deficit stood at $25 billion, double that of the year before, and represented 15% of GNP.

Since most of the deficit is financed by money creation, the government debt has been a continuous source of excess liquidity. Last year, about half the deficit was financed by expanding the monetary base. These Treasury financing requirements have thwarted attempts by the Bank of Italy to bring liquidity growth under control. During the 12 months ending in October, growth of the monetary base reached 19.7%, compared with an average growth rate of 11.9% in 1968-72.

Output and Unemployment

Because of inflationary expectations and political uncertainties economic recovery has lagged three to six months behind upswings in many other large industrial countries. Indeed, consumer and investor confidence have been so low that even last August's ~~misguided~~ attempt at reflation – against the advice of the Bank of Italy and the EC – merely added to the confusion. Nonetheless, with some help from export sales, industrial production is rising once again. After dropping 9.7% last year, output has risen 14% (seasonally adjusted) since December.

On the demand side, fixed investment remains severely depressed, following a 20% decline last year. Business pessimism, squeezed profits, substantial spare capacity, and tight credit in the face of weak demand ensure another drop this year. The sharp fourth-quarter increase in imports almost certainly reflected anticipation of lira depreciation rather than stronger demand; imports fell off again in January. With job uncertainties still high, consumer demand remains weak – after falling 2.5% in 1975. Exports are the brightest spot on the horizon. They began picking up in second half 1975 and should improve over the course of 1976 as the effects of lira depreciation are felt and demand in major markets such as the United States, France, and West Germany improves. Overall, GNP, after falling 3.7% in 1975 is likely to show a little growth this year.

Unemployment continues to creep up, adding to labor union tensions. Because union strength has made it difficult for employers to lay off workers, unemployment officially is only 3.5%. However, the total number of workers employed less than full time increased 27.6% in 1975, comprising 5.6% of the labor force. Little, if any, improvement in unemployment is expected this year. Because it is so difficult to get rid of surplus labor, Italian employers are more cautious than most in taking on new workers.

The Political Stranglehold on Economic Policy

Attempts to grapple with Italy's inflationary spiral have been hamstrung by the conflicting policy goals of the center-left political parties. In a minority position, the last Christian Democratic government of Aldo Moro needed support, or at least abstention, from the Socialists and the Republicans to pass corrective legislation. The Socialists, fearing vote losses to the Communists, would not challenge the unions or support legislation cutting into workers' earnings. At the other extreme, the Republicans are rigid advocates of government fiscal responsibility. As a result, policy measures were barely half-way houses to solving Italy's problems.

A stabilization program proposed early this year attempted to reduce public borrowing requirements through improved revenue collection, curbs on public spending, and rate adjustments for public utilities. The program included a watered-down incomes policy, which would freeze salaries of industrial workers earning over $8,000 and withhold wage increases for high-level government employees. This program, which apparently never emerged from parliament, probably would have had little effect. Promises to improve tax collections and curb spending have rarely materialized in the past; the weak incomes policy would have covered only 1.2 million persons.

More promising, at least in terms of reducing the government's massive borrowing needs, are the tax hikes announced in mid-March. Already in effect by decree law are a 10% rise in the gasoline tax, an increase in the sales tax on autos, and a rise in the tax on interest from bank income. These measures are supposed to cut oil imports and add $1.9 billion to government coffers – about 7.5% of the 1975 Treasury borrowing requirement. The Bank of Italy also upped the discount rate 4 percentage points – to 12%, the highest in Europe. This latter measure was simply one of many moves the central bank has taken to reduce capital flight and sop up excess liquidity at home.

~~Weak as they are,~~ the austerity moves quickly inspired adverse reaction. Some 20,000 Alfa Romeo auto workers struck for two hours in protest, and a general strike was held on 25 March. Meanwhile, the Communist Party made capital out of the measures. Communist editorials deplored the new tax increases because they "hit the lower classes" and the rise in the bank rate because it "creates unbearable conditions for small- and medium-sized firms."

As elections approach, the Communist Party is intensifying efforts to present itself as the only alternative to continuing economic crises in Italy. Party fiscal reforms call for ceilings on central government and state agency budget expenditures and the decentralization of spending programs. A revamping of the tax system – higher rates on upper incomes and tougher measures to curb evasion – is also recommended. In regard to trade policy, the Communists suggest petitioning the EC for escape clause authority to establish import quotas and support the reinstallment of the import deposit scheme. To reduce import reliance, party economists urge expansion of domestic agriculture – especially meat production. The party rejects wage controls of any kind and stresses the need for greater union participation in planning business investment.

Inflation - A Setback; Trade Accounts - Deterioration

The new government will inherit a troublesome economic situation. Inflation, which averaged 17% in 1975, has accelerated to a 25% annual rate as the past devaluation of the lira has boosted costs for imported fuels and foods. Imports are equivalent in value to about one-third of GNP. Without some check on unions, wage pressures will add further push to prices. The metalworkers' contract, promising wage hikes in excess of 20% this year, probably will serve as a precedent for remaining wage settlements covering 6.8 million workers; productivity gains are expected to be minimal because of low capacity utilization and intermittent strike activity. Moreover, even the slight pickup in demand expected will probably encourage producers to improve their severely depressed profit margins.

While lira depreciation has restored the competitiveness of Italian exports to 1973 levels, its short-term effect will be to worsen the trade account by raising import prices. If importers can secure necessary financing, the deposit plan is likely to have only a limited effect on trading patterns. Its low carrying charges will boost prices of foreign goods only marginally. Imports from the US would be less affected than others because wheat purchases – a substantial share of Italian imports from the US – are exempt. The trade deficit could deteriorate from about $800 million last year to $3 billion in 1976. With net services running close to their 1975 level, the current account deficit could amount to $2 billion this year.

One of the country's biggest economic headaches throughout the year will be finding adequate financial support to cover the current account deficit, repayment of past debt, and sporadic bursts of capital flight. Because of the vagaries of capital flight, it is difficult to gauge Italy's 1976 borrowing needs. Foreign indebtedness now totals roughly $15.5 billion; this year alone, Rome is scheduled to repay 3.5 billion in interest and principle. Currency reserves cannot exceed $2 billion. So far, Rome has reborrowed the $500 million previously repaid on a $2 billion loan from West Germany, drawn $500 million on a $3 billion swap arrangement with the US Federal Reserve System, and intends to draw $250 million more on this swap arrangement. Rome has received $1 billion in medium-term credits from the EC and is authorized to receive $450 million and $600 million in short-term credit from the EC and Bank for International Settlements, respectively. Italy hopes to obtain $530 million from the IMF under the new credit arrangements established at Jamaica. [redacted]

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ITALY: ECONOMIC POLICY OF COMMUNIST PARTY

The Italian Communist Party has intensified efforts to convince voters that its participation in policy formulation is essential for economic stability. In anticipation of the national elections now scheduled for 20-21 June, economic proposals by Party experts largely center on nondoctrinaire solutions to Italy's immediate problems. Many Communist proposals, particularly in the fiscal area, conform closely to those advocated by various center-left parties. The Communist program nevertheless is carefully contrived to serve the goals of Party self-interest, protection of worker income, and lessened economic dependence on the West.

The Party is much more vague about its longer term economic goals. Enrico Berlinguer, Party chief, promises to push Italy toward a system of "democratic planning." How this form of market socialism would actually work has never been clearly defined by the Party.

Emergency Proposals

The Communists see balance-of-payments equilibrium as the most immediate goal. To relieve pressure on the lira, the Party recommends tighter controls over capital exports and over import payments. The Party urges petitioning the EC for escape clause authority to establish import quotas for luxury items and calls for revival of the import deposit scheme used to contain the external deficit in 1974. If consumption of imported goods must be curbed, the Communists view rationing as more equitable than adjustments via the price mechanism.

Party economists generally oppose further external assistance. Italy's huge foreign debt – totaling $15.5 billion – is seen as a symbol of foreign control over the Italian economy. Eugenio Peggio, one of the Party's leading economic experts, has denounced foreign credits from the EC and the IMF as threats to Italian autonomy because they specify constraints on the growth of public spending and credit. Any further foreign borrowing, he asserts, must come with no strings attached.

The Communists reject any type of incomes policy as a solution to Italy's payments deficit because they feel the burden of such policies falls largely on the lower classes. Although the Party admits unit labor costs must be competitive

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with those of trading rivals, wage controls of any kind – including attempts to alter the sliding scale link between wages and prices – are flatly spurned. According to Peggio, wage moderation can only come about once greater union participation in business planning and investment has been established.

The Communists also promise voters relief from the credit squeeze instituted to bolster the lira. The Party recommends the Treasury establish a special line of credit to provide financing for priority projects in agriculture, housing, energy, and the employment of youth. At the same time, it recommends that financial institutions give priority to small businesses in screening credit proposals.

Structural Changes

The Communists see import substitution as essential to long-run improvement in Italy's external accounts. In common with many center-left economists, Eugenio Peggio recommends the rapid expansion of domestic agriculture and maintenance of the farm population at current levels. He particularly emphasizes the need for increased meat production; foreign exchange expenditures for imported meat are second only to those for crude oil.

The Communists go much further than most non-Communist economists in advocating major surgery for the Common Agricultural Policy (CAP) of the EC. In the Party view, the CAP has served only to keep the prices of Italian agricultural imports high. The Communists would restructure EC farm policy so that nations now benefiting from the CAP would finance at least half of their own agricultural surpluses.

The Party also advocates some shift in trade flows, ostensibly to conserve foreign exchange. In regard to industrial goods, Peggio urges that trade be shifted toward supposedly less expensive suppliers either in the USSR and Eastern Europe or among the developing countries. He also recommends barter agreements based on the East European prototype.

Streamlining government operations is viewed correctly by the Communists as essential for long-term economic stability. Party resolutions recommend ceilings on central government and state agency budget expenditures, as well as the decentralization of fiscal programs. Under the latter proposal, almost all public projects in the fields of health, education, housing, and transportation would be turned over to the regional governments for implementation. To bolster government revenues, the Party favors tougher tax treatment for the upper classes; it urges random tax auditing to curb evasion and accelerated collection of overdue taxes.

Democratic Planning

According to Luciano Barca, chief of the Party economics section, Italy's present economic system is obsolete. He expresses the view that free enterprise in Italy has rested on the pillars of cheap labor and inexpensive raw materials. He claims that the collapse of these pillars, with the strengthening of the labor union movement in the 1970s and with the energy crisis, plunged Italy into its present economic morass and signaled the decline of the market-dominated economic system. He would nonetheless grant broad concessions to the market, if for no other reason than the need for continued contacts with outside market economies.

The Communists insist that they want to move Italy toward a planned economy through democratic processes. They are purposefully vague about their ultimate system and about ownership of the factors of production in the long run. In the short run, the Communists apparently would like as full control of the economy as possible without completely alienating private business. They reject massive nationalization, which would quickly extinguish private enterprise; in any event the government already owns at least one-third of Italian industry. The Communists would attempt to control investment flows through credit and tax policies, more effective manipulation of public companies, and planning agreements with private companies.

Economic planning should work, Barca states, to achieve a "fundamental social transformation" by mustering the full weight of industry to serve social needs." The Communists would channel more investment into housing, schools, hospitals, public transportation, and economic development in southern Italy. They favor labor-intensive investments and increased capital spending in food-processing industries. One Party member, who deals in economic and labor policy matters, claims planning would reduce duplication of manufacturing facilities and lead to a better utilization of industrial capacity.

Evaluation

With the lessons of Chile fresh in mind, the Party is cautious not to present too militant a front. The Communist platform has considerable appeal to the mass of voters, especially at a time when unemployment is still rising. Not only does the Party appear blameless for the current economic malaise, but it appears to offer a way out of Italy's economic problems that entails minimum sacrifice on the part of labor. The Party rejects any type of wage restraint and sponsors numerous specific measures designed to curry favor with the workers. A few of these include –

- a two-price market for gasoline to guarantee low gasoline prices for workers,
- a national fund to make unemployment payments to those seeking their first jobs, and
- government intervention in wage negotiations to insure speedy contracts for workers.

Despite the Party's professed allegiance to the EC, formal adoption of several Communist proposals would run counter to Community doctrine. Communist demands for a reform of the subsidy mechanism within the CAP amount to an attack on the system itself. Proposals to control luxury imports, reduce import dependence, and redirect trade toward the East could only be accomplished by imposing controls or providing subsidies. Such measures would threaten the most solid achievement of the EC – namely, the free flow of goods and services among member states.

While many of the party's fiscal proposals have merit, others are dominated by self-interest. The calls for fiscal decentralization are clearly motivated by the pronounced strength of the Party in regional governments rather than by any clear prospect of efficiency gains. While proposing curbs on expenditures by the central government and state agencies, the Communists say nothing about setting limits on local government funds or social security funds. In recent years, these two accounts – of special concern to workers and to the Communists – have been responsible for much of the rise in the total Treasury cash deficit. The Communist proposal to move more trade toward Eastern Europe is also motivated by self-interest, as the Party receives a commission on any deals it brokers with these countries.

The Communist goal of "democratic planning" would increase government interference, especially in the credit market, and push Italy further in the direction of a planned economy. The Party envisions a strong state to direct industry and a planning center to set economic priorities. Doubtless, a powerful bureaucracy would be required to implement those priorities.