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CENTRAL INTELLIGENCE AGENCY  
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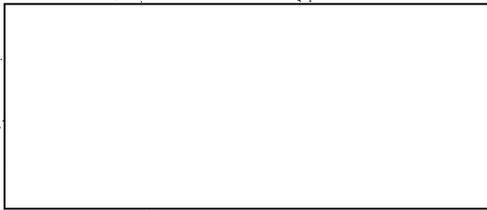
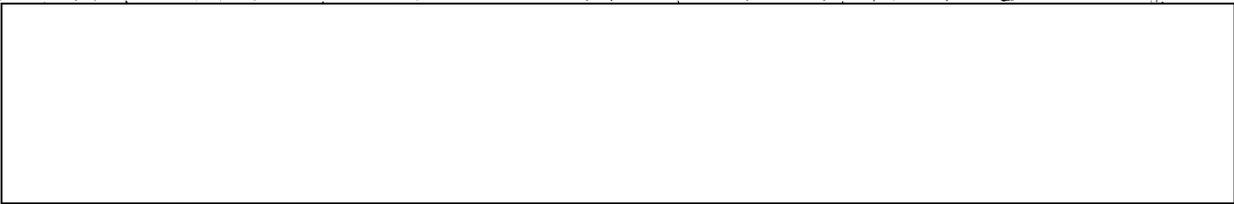
MEMORANDUM

Italian Situation

Short-term prospects for Italian Prime Minister Cossiga's shaky government may have improved somewhat in the wake of the Soviet invasion of Afghanistan. The Soviet action has once again brought to the fore the issue of the Italian Communist Party's relationship with Moscow, and the parties supporting Cossiga may now be more reluctant to precipitate a crisis in which the main issue would be that of Communist participation in the government. Cossiga will not be strong enough to deal with Italy's persistent public order and economic problems, however, and the continuing stalemate will favor Communist movement toward participation in the government.

Although the Italian Communists sponsored a resolution in the European Parliament expressing "gravest censure" of the Soviet action in Afghanistan, the party has taken care not to strain its relations with Moscow too much. As a result, the question of the party's independence, and hence its suitability for inclusion in a government, has acquired new strength. The other parties may now submerge their differences and sustain the government--for another few months, at least. Cossiga has tried to capitalize on this mood by dealing with international questions in ways that enhance his government's stature--particularly among Italy's allies. The Prime Minister may hope that Italy's tenure as EC president and its role as host of the Venice Economic Summit in June will provide additional reasons for putting off a government crisis.

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Working against the extension of Cossiga's mandate is the growing impression in Italy that effective government is impossible without at least some Communist support. Cossiga has been unable to muster parliamentary majorities for measures to curb inflation, conserve energy, reform the pension system, or deal with other pressing problems. Terrorist activity appears to be on the rise, despite the government's recent, extraordinary anti-terrorist measures. Labor unrest is increasing. Deteriorating economic conditions have generated worker demands to renegotiate collective wage contracts.

The Communists' prospects are also strengthened by the turmoil in the Socialist Party--which is an essential component of any non-Communist majority. Reemerging divisions among Socialists have weakened the party's resolve to continue abstaining on key parliamentary votes--the essential prop keeping Cossiga's Christian Democratic-dominated coalition in office--and have given renewed impetus to those Socialists favoring a government including the Communists. Widespread uncertainty over the reliability and predictability of the Socialists has encouraged many Christian Democrats to accept the prospect of a new governing arrangement including some Communist backing.

[redacted] the Communists apparently have helped their cause by successfully mobilizing their constituents on various issues to exploit the perception of governmental impotence and to tout the advantages of an option including the Communists.

On balance the non-Communist parties, hoping for a relaxation in international tensions, probably will prefer to keep Cossiga in office a while longer rather than face an immediate confrontation over Communist participation in the government. The continued Communist insistence on cabinet seats as the price for supporting a new government essentially nullifies the other parties' apparent willingness to grant less sweeping concessions. The Socialists may succeed in papering over their differences and decide to allow Cossiga to survive, but perhaps only until the Christian Democrats have had a chance to sort out their options. The Christian Democrats, whose party congress opens in early February, probably will lean toward a government formula with some Communist involvement short of cabinet seats; they may try to promote Communist and Socialist cooperation by threatening them with early parliamentary elections, which neither party wants.

Even if the Cossiga government survives the inevitable pitfalls, it is likely to remain ineffective. This will give the Communists the opportunity to capitalize on growing public dissatisfaction, thus improving their prospects in the nationwide local elections in June.

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