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DATE: MAR 2004

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# Italy: Continuing Political Immobility and Probable Economic Doldrums

An Intelligence Assessment

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ER 81-10022  
PA 81-10021  
January 1981

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# Italy: Continuing Political Immobility and Probable Economic Doldrums

An Intelligence Assessment

*Research for this report was completed  
on 5 January 1981.*

This paper was prepared by [redacted] the  
Office of Political Analysis and [redacted]  
the Office of Economic Research. It was  
coordinated with the National Intelligence Officer for  
Western Europe. Comments and queries are  
welcome.

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ER 81-10022  
PA 81-10081  
January 1981

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**Italy: Continuing Political  
Immobility and Probable  
Economic Doldrums**

**Key Judgments**

Italy's inability to establish a stable and effective governing coalition continues to block the implementation of medium-range economic and energy policies and has relegated foreign policy issues to the backseat. Efforts to strengthen Prime Minister Forlani's four-party government—grounded in an alliance of Christian Democrats and Socialists—have been checked by conflicts between the two parties and by a Communist campaign to drive them apart. The failure of the partners in the coalition to reconcile these tensions may drive them toward an early national election—perhaps this spring—in an effort to clarify their relationships.

The parties' jockeying for position has not markedly affected the government's ability to adopt short-term austerity measures. But competition within the coalition—primarily between the Christian Democrats and Socialists—has led to sharp disagreements on medium-term economic and energy plans. Until now the resiliency of the economy has compensated for the government's policy shortcomings. Italy achieved economic growth of 5 percent in 1979 and an estimated 3.4 percent in 1980, spurred by the highly productive, unregulated "submerged" sector of the economy. In 1981, however, heavy losses in the large state sector and the declining competitiveness of Italy's exports probably will cut economic growth to about 1 percent. Adding to the gloomy outlook are an overly generous wage indexation scheme, a heavy dependence on imported oil, and a massive public-sector deficit—the engines of persistent double-digit inflation and the major unresolved structural problems in the economy.

In foreign affairs, Rome's ability to follow the US lead in NATO is constrained by domestic criticism, particularly from the Communists. During the past year the government has tried to undercut opposition by demonstrating that it has parlayed its links to Washington into full participation in Alliance consultations—political and otherwise. Rome also has sought to placate its critics by balancing its Atlantic ties with a West European orientation—even though its association with Paris, Bonn, and London has sometimes resulted in disagreement with the United States.

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## Italy: Continuing Political Immobility and Probable Economic Doldrum

### Political Setting

Italy's political parties have made little progress during the past year toward releasing the country from the treadmill of unstable and ineffective coalitions that has plagued it for most of the postwar period. In April, the formation of the second Cossiga government—the first coalition in seven years to wield a clear parliamentary majority—seemed to be a major step in this direction. But deep divisions among the coalition partners, particularly the Christian Democrats and Socialists, and stiff Communist opposition caused the coalition to collapse after barely five months in office.

In forging the current coalition government, Prime Minister Forlani sought to protect himself from Cossiga's fate by adding the Social Democrats to his predecessor's coalition and securing promises of Liberal Party backing. Not even this solution has come to grips with the underlying impediments to a firm Christian Democratic-Socialist alliance:

- The Socialists' efforts to put as much distance as possible between themselves and their Christian Democratic governing partners.
- Communist determination to drive a wedge in the Christian Democratic-Socialist alliance.
- The Christian Democrats' inability to choose between the Socialists and the Communists as their party's principal interlocutor.

It is unlikely the parties will be able to work out these difficulties among themselves and probably will resort to an early national election.

**The Pivotal Socialists.** The Socialists—Italy's third-ranking party with 10 percent of the vote in the 1979 national election—remain the key to any governing coalition excluding the Communists. Socialist leader Craxi is working to parlay this arithmetic leverage into something more lasting. In the short term, he would like to create the image of a cohesive, responsible party, worthy of leading the government; over the longer run he wants to transform the party into the core of a small-party federation capable of competing

on equal terms with the Christian Democrats and Communists.

Craxi has pursued this strategy in two distinct phases corresponding roughly to his association with the second Cossiga government in the first instance and the Forlani government in the second:

- He has used his party's support for the government to extract from the Christian Democrats greater influence and responsibility within the coalition and, trading on this, to weaken opposition to his strategy within his own party.
- He has tried to unite his party around a policy of "differentiation" from the Christian Democrats, in anticipation of an election performance that might boost Craxi's own chances of being appointed prime minister.

The Socialists' efforts to disassociate themselves from the Christian Democrats reached a peak recently with the exposure of a politically explosive scheme—allegedly involving high-ranking Christian Democratic party and government figures—to defraud the government of petroleum tax revenues. Craxi has led the charge on this issue, claiming that widespread government corruption is due to 30 years of uninterrupted Christian Democratic political dominance and hinting that the only way to reform the system would be to establish the principle of alternation in power—initiated by a Socialist-led coalition. Craxi also has sought to make political capital out of bungled government relief efforts following the recent earthquake, although the Socialists' involvement in the government has made this a delicate and risky business at best.

For the near future, the Socialists will be striving to avoid either causing a premature governmental collapse for which they might be held responsible or being too closely identified with Christian Democratic shortcomings and squandering the political momentum al-

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ready generated by Craxi's carefully calculated strategy. Ultimately, Craxi's future rides on his party's ability to succeed at the polls; Socialist gains in the next election would truly make him a figure to reckon with. A loss of parliamentary seats, on the other hand, not only would jeopardize his grand design of a small-party federation but also could threaten his party's governmental role and even his control over the party.

**The Aggressive Communists.** The Communists, Italy's second-largest party in terms of votes—30 percent in the last election—continue to articulate their “historic compromise strategy”—the goal of cooperating with the Christian Democrats and other parties in a coalition formula—as a means of capturing a share of the governing power in Italy. In the event the party should obtain a direct governing role, the strategy is calculated to avoid the isolation of important conservative forces, which might lead to the sort of backlash that undermined Allende in Chile.

This approach has attracted a following among moderates outside the party far in excess of actual party membership. Hardliners in the party are at once gratified by this support and concerned it could dilute the party's central principles. To keep both ends of the spectrum happy, the party leadership has been forced to show continuous progress toward its goal. Consequently, it is constantly making tactical adjustments, alternating between two basic lines:

- “Hard opposition” to demonstrate that Italy cannot be governed effectively in the face of determined Communist opposition.
- “Soft opposition” to prove that Communist cooperation, in fact, permits the government to make progress in tackling terrorism and Italy's chronic economic problems.

Public outrage over the petroleum scandal and the government's earthquake relief effort has convinced the Communists to step up their pressure on the government parties. They obviously believe these two issues give substance and focus to their longstanding charges of government corruption and inefficiency and lend credibility to their claims that only Communist participation in the government could set politics back on the right track. The party is looking ahead to an election in which it might be able to capitalize on this

growing discontent, not only to recoup recent losses but to register the gains necessary to achieve its objective.

The party's continued sponsorship of a proposal floated in early December that it be allowed to lead a government excluding the Christian Democrats with a mandate to reform Italian politics is a tactical ploy to maximize the party's chances in an election by keeping up pressure on the government, by setting the Christian Democrats and Socialists at each other's throats, and by ensuring that the Socialists do not benefit from the turmoil. The Communist initiative creates a particular dilemma for Craxi and the Socialists. It challenges them to follow their “differentiation” policy to its logical conclusion by totally disassociating themselves from the Christian Democrats or, failing that, to make themselves fair game for Communist attacks on the theme of guilt by association. The Communists ultimately hope to put Craxi in a position where he has no chance but to threaten an election. They would hope thereby to pull the Christian Democrats into their own arms, or at the very least exploit the issue of ineffectiveness and corruption in government against both opponents.

**The Divided Christian Democrats.** The Christian Democrats—Italy's dominant party with 38 percent of the vote in the last election—remains virtually immobilized by sharp internal conflicts. The moderate-conservative majority favors a preferential relationship with the Socialists and smaller parties to isolate the Communists. Leftwing Christian Democrats, on the other hand, prefer reviving a cooperative relationship between their party, the government as a whole, and the Communists—perhaps culminating in the appointment of Communist cabinet ministers. Whatever their preferences, however, all Christian Democrats feel constrained to abide by certain traditional party tenets:

- To protect its dominant role in Italian politics.
- To unite the party—if only by papering over differences—when it comes under external attack.
- To play the Socialists and Communists off against each other to undercut the aspirations of both.

The establishment of the Forlani government brought with it new hope that the party's right-left gap might be bridged. Christian Democrats from all party currents labored to conclude an agreement that would

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grant the left wing a greater role both in the party and government and would rejigger the party line—allowing for an opening to the Communists. In return, the left would make the party's support for the coalition unanimous. But the continued obstinacy of both Christian Democratic groups and their efforts—despite the truce—to discredit each other's position with dirt from the petroleum scandal began unraveling the pact before it could produce results. [redacted]

The intensity of the Communist and Socialist attacks on this issue and on the earthquake relief question seems to have put this reconciliation process on ice. There is some evidence that the scandals and their aftermath may be forcing the party to think more seriously than it has for some time about how to deal with its internal divisions. For the moment, however, by deciding once again to postpone the most divisive aspects of their internal debate, the Christian Democrats have freed themselves to:

- Fend off their critics' barbs with charges of opportunism and appeals for political solidarity to cope with Italy's pressing problems.
- Create at least the impression of cleaning house by supporting—in principle—measures to fight corruption and clientelism in the party.
- Keep their opponents off balance by hedging their reaffirmation of a coalition with the Socialists and smaller parties with a statement of their availability to ally with the Communists in extraordinary circumstances at the national level. [redacted]

Clearly on the defensive, the Christian Democrats in the short run will continue to focus their energies on propping up the existing government, hoping that public feelings against them will subside and permit them to tackle internal problems later in relative peace. In the meantime, it is virtually certain that the party will approach with utmost caution the question of longer term or otherwise enhanced relations with the two leftist parties. [redacted]

#### Outlook for the Government

Given its inherent internal contradictions, there is little chance the Forlani government will be able to cope effectively with substantive problems. In the short

term, the coalition probably will weather the current storm of attacks. The Communists—in whose interest it is to create problems for the government—most likely will have difficulty sustaining the current high level of tension. While the Italian public is easily aroused by scandals, traditionally it has been just as easily distracted. Moreover, the pivotal Socialists now seem prepared to allow the issues to fade from view; they have gained considerably from the Christian Democrats' plight, but to push further would threaten Craxi's carefully calculated strategy. The government parties may shuffle the Cabinet to give at least the appearance of a fresh start. [redacted]

Despite whatever expedients are employed to keep the Forlani government from collapsing, the center-left formula it represents is unlikely to take root in the Italian political system. Potent forces—the Communists and the Christian Democratic left—have large stakes in seeing that such a coalition fails even if this entails an election. While rightwing Christian Democrats and Craxi's Socialists have pinned all their hopes on an alliance between their two parties, they cannot agree on the terms of the deal. The Socialists obviously will not rest until the coalition is rebalanced in their favor. While some Christian Democrats might ultimately agree to this solution, the party as a whole would be reluctant to concede unless forced to do so by popular mandate. Consequently, it seems only a matter of time—perhaps as early as the spring—until the Italians once again make their way to the polls to try to sort out conflicts that the parties cannot or will not resolve themselves. If the past is any indicator, another electoral test will serve only to complicate matters further. [redacted]

#### The Economic Setting

The government's internal problems find no clearer expression than in its attempts to deal with the country's economic woes. Although the Forlani government has pushed short-term austerity measures through Parliament, policies to deal with structural economic problems appear nowhere in sight. Bringing Italy's 20-percent inflation rate into line with other EC countries is especially important, now that Rome is a member of the European Community's joint currency float—the European Monetary System. However, the current coalition, created from parties with diverse economic

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philosophies, is having trouble agreeing on medium-term policies. The political fallout from both recent scandals is creating additional obstacles to policy formulation. As has been the case for many years, the Bank of Italy will continue to fill the vacuum in economic policymaking created by weak, short-lived governments [redacted]

**Slower Growth Ahead.** Despite the lack of a government economic program, Italy achieved the fastest economic growth in the European Community in each of the last two years. Italy recorded 5-percent real growth of gross domestic product (GDP) in 1979, and last year's growth was probably close to 3.5 percent. Highly productive, small manufacturers—often operating in the "submerged sector," which accounts for at least 10 percent of GDP—have been primarily responsible for Italy's above-average performance in recent years. By contrast, the massive state enterprise network, which employs nearly 1 million Italians but is terribly inefficient in no small part because of political pressure to have it act as the caretaker for dying firms, has suffered losses totaling an estimated \$4.4 billion during the past two years [redacted]

Italian economic growth in 1981 will fall far short of the rates achieved in the preceding two years, probably reaching only 1 percent. Industrial production and real GDP began slipping in spring 1980 and neither showed any signs of reviving through the third quarter. Sometime in first-half 1981, industrial production should again begin edging upward. By that time, however, Italy's unemployment rate may have topped 9 percent. [redacted]

Export-led growth, like that experienced from 1976 through 1979, cannot be expected to pull the Italian economy out of the doldrums in 1981. Dim growth prospects in the traditional export markets of West Germany, France, the United States, and the United Kingdom and the waning competitiveness of Italian goods on international markets will limit export gains. A 1.5-percent increase in export volume is likely in 1981, well below recent performance. [redacted]

Nor can fixed investment on the same order of magnitude that spurred growth in 1980 be counted on in 1981. A 10-year replacement cycle for capital goods,

which boosted investment in plant and equipment starting in 1979, appeared to have run its course by the summer of 1980. Stringent monetary policy, expected to hold at least through the first half of 1981, also will contribute to a probable 1- to 3-percent drop in fixed investment [redacted]

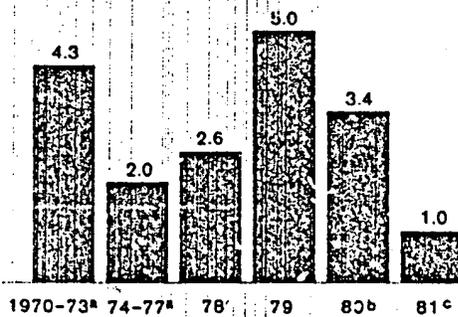
The big question mark for the economy in 1981 is the direction and impact of fiscal policy. Concerned more with the economy's long-range health than with the current recession, Budget Minister La Malfa and Treasury Minister Andreotta want Rome's fiscal policy in 1981 to be no more expansionary than it was in 1980. The earthquake in the most economically depressed region of the country, however, is forcing a reassessment of the 1981 budget. Within the first week after the disaster, the government made \$1.3 billion available for relief operations. The Treasury is now estimating that \$8 billion will be required for reconstruction this year, but the final price tag could be \$12-15 billion—or 3 to 4 percent of GDP. A project on this scale would severely strain Italy's bureaucracy; it also would require either an expansionary budget or sharp tax increases. The government has announced plans to use foreign loans to defray around \$3 billion of the costs and has hiked gasoline taxes to raise about \$1.5 billion in new revenue [redacted]

**Inflation.** Rapidly rising oil prices, increases in indirect taxes and prices for public services, and brisk domestic demand pushed up Italian inflation from 15.7 percent in 1979 to 21 percent in 1980. A prodigal wage indexation scheme, heavy reliance on imported energy, and massive government deficits are most to blame for persistent double-digit inflation. Italy's wage indexation scheme (*scala mobile*) provides workers with approximately 90-percent coverage against the costs of inflation. Last summer the government tried to eliminate value-added taxes and petroleum from the basket used to calculate cost-of-living increases; but had to withdraw the proposal in the face of union opposition. Government deficits, averaging 12 percent of GDP during the period 1974-79, can be blamed partially on the pervasive patronage and clientelism of Italian society. Pensions, for example, totaled \$38 billion in 1979 and were received by one in every three Italians [redacted]

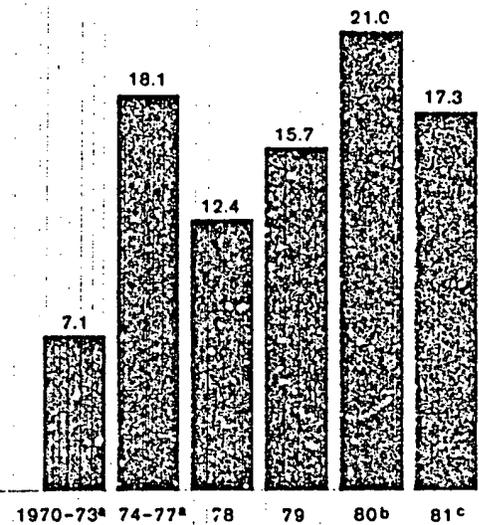
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### Italy: Selected Economic Indicators

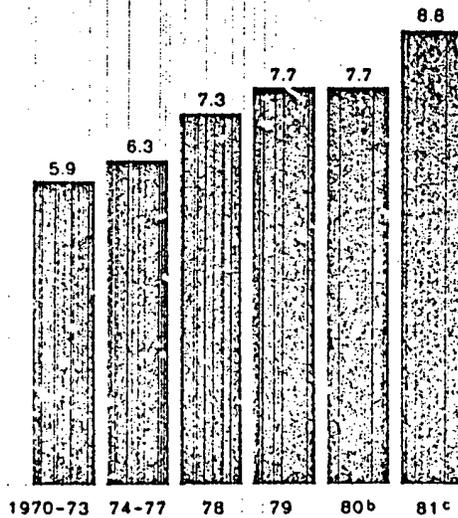
**Real GNP Growth**  
Percent



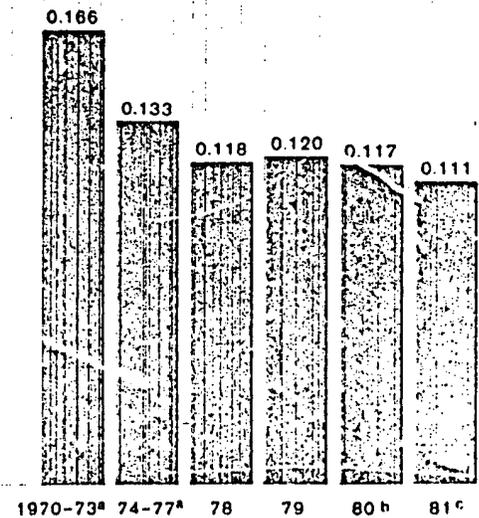
**Consumer Price Inflation**  
Percent



**Unemployment Rate**  
Percent



**Exchange Rate**  
US Cents Per Italian Lira



<sup>a</sup>Average annual  
<sup>b</sup>Preliminary  
<sup>c</sup>Projected.

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Given these constraints, the medium-term anti-inflationary plan presented to the Cabinet last fall concentrated on improving supply rather than on restraining demand. To bring inflation down to 12 percent by 1983, Budget Minister La Malfa called for three-year plans to help such troubled industrial sectors as automobiles and chemicals, for approval of the energy plan drafted last summer, and for programs to improve the workings of labor and capital markets. To be successful, industrial restructuring would require layoffs, especially in the south and in state enterprises. La Malfa argues that this is an acceptable price to pay for lower inflation, but some Cabinet ministers from left-of-center parties disagree. Lacking a common vision of who should pay for lowering Italy's rate of inflation, the political parties are unlikely to be able to devise workable medium-term plans any time soon. Even if an acceptable plan were drafted, the rapidity with which Italian governments come and go would surely hamper implementation. And without an effective plan, it is only a matter of time before the lira must be devalued within the European Monetary System thus increasing inflationary pressures [redacted]

Italian officials believe that inflationary pressures will diminish somewhat in 1981, even if no new policies are devised. Officials at Italy's government statistical institute insist that much of the acceleration in consumer prices in second-half 1980 can be attributed to government-dictated increases in gasoline prices and value-added taxes. Although further increases in public tariffs are anticipated, official estimates assume they will be lower than the ones instituted in 1980. The Bank of Italy's optimistic goal for inflation in 1981 is 15 to 16 percent. To reach this goal, monetary authorities will try to limit total domestic credit growth to 16 percent in 1981. Strict limits on bank lending in lire will remain in place at least through March [redacted]

**Balance of Payments.** Growth exceeding that of its trading partners, worsened terms of trade attributable to oil price increases, and diminished export competitiveness began to take a heavy toll on Italy's trade balance by fourth-quarter 1979. Trade swung from a surplus of \$1.4 billion in the final quarter of 1978 to a deficit of \$1.8 billion a year later. The foreign trade deficit was probably around \$19 billion in 1980 and may be at about the same level in 1981. Assuming no dramatic increases in oil prices, the current account

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Table 1 Billion US \$  
Italy: Current Account

	1979	1980 <sup>a</sup>	1981 <sup>b</sup>
Trade balance	-1.0	-18.5	-19.2
Exports	71.3	81.1	90.8
Imports	72.3	99.6	109.9
Net services	7.3	7.8	11.6
Net transfers	-1.3	-1.8	0
Current account balance	5.1	-12.5	-7.6

<sup>a</sup> Preliminary.  
<sup>b</sup> Projected.

[redacted] deficit should decline from an estimated \$12 billion in 1980 to \$8 billion in 1981 [redacted]

Lacking natural resources, Italy is hard hit by increases in raw material prices such as those experienced in 1980. If export and import prices had remained at January-August 1979 levels, Italy would have registered a \$3 billion trade surplus in the first eight months of 1980. Instead, soaring import prices drove nonseasonally adjusted trade \$13.3 billion into the red. Slow growth in traditional export markets also had a deleterious effect on Italy's trade account in 1980. Average EC growth 2 percentage points below that in Italy helps explain why Italy's trade balance with the Community deteriorated by \$4 billion during the first nine months of 1980 [redacted]

The sharp deterioration in Italy's foreign trade position has reawakened memories of the recurring balance-of-payments crises during 1973-76. As one of the industrialized countries hardest hit by the 1973-74 oil price increases, Italy was forced in 1975 and 1976 to secure International Monetary Fund (IMF), West German, and EC loans. In addition, the lira slid from 653 to 832 against the dollar during 1976. Fears of a repeat of 1976 appear unfounded. Official foreign exchange reserves (excluding gold) totaled \$21 billion on 31 October 1980, compared with only \$2 billion on 30 September 1976. Italian reserves actually rose \$3 billion in the first 10 months of 1980, despite a massive trade deficit and Bank of Italy intervention on behalf of the lira

**Table 2**

**Italy: Selected Energy Indicators**

	1970	1973	1976	1977	1978	1979	1980*
Energy consumption per capita (barrels of oil equivalent per year)	16.3	18.6	18.5	18.2	18.6	19.0	19.6
Energy consumption (thousand b/d oil equivalent) <sup>b</sup>	2,402	2,796	2,846	2,812	2,882	2,956	3,050
Net oil imports (thousand b/d)	1,770	2,090	1,963	1,936	1,908	1,986	2,020
Net oil imports (billion US \$)	1.2	2.4	8.0	8.4	8.8	12.0	19.5
Net oil imports as share of energy consumption (percent)	73.7	74.7	69.0	68.8	66.2	57.2	66.2

\* Preliminary.

<sup>b</sup> Source for this data is the Bank of Italy Annual.



totaling \$4.2 billion. A \$3 billion appreciation of European Currency Unit holdings against the dollar explains much of the paradoxical rise in reserves. In addition, net foreign indebtedness of Italian banks jumped \$5.3 billion in January–November 1980, produced by Bank of Italy restrictions on lending in lire

**Energy Plans and Policies**

Government energy planning in recent years has been almost as futile as long-term economic planning. Past planning has been most deficient in the production of electricity, where demand has grown rapidly. The amount of electricity generated in oil-fired plants increased from 90 billion kilowatthours in 1973 to 102 billion kWh in 1979. During the same period, Italy was forced to increase annual electricity imports from neighboring countries from 1 billion kWh to 5.5 billion kWh

Inability to implement plans for building nuclear power plants approved by Parliament in 1975 and 1977 explains Italy's continued dependence on oil-fired facilities for nearly 60 percent of electricity production. Regional authorities, who are usually more organized and in office longer than figures in the central government, have blocked siting and construction of the 20 nuclear plants originally scheduled. A new energy plan for the 1980s, stressing increased use of coal in electricity production, was drafted last summer and is slowly moving through Parliament. Rome hopes that coal can meet 25 percent of electrical needs and

more than 15 percent of total energy requirements by 1990, up from 6 and 11 percent, respectively, 1979

Feeling vulnerable to interruption of energy supplies and lacking faith in the IEA sharing mechanism, Rome has tried to establish special relationships with oil producers. Before the Iran-Iraq war, Italy was working to develop one with Iraq, while trying to distance itself from Libya. Rome's relations with its largest oil supplier, Saudi Arabia, soured in 1979 when the Saudis suspended a 100,000-b/d contract because of allegations that massive commissions had been paid to members of the Saudi royal family

Despite only limited success in boosting nonoil electrical generating capacity, net oil imports in 1980 were about 3 percent less than in 1973. Industrial and personal energy conservation appears to be responsible for the decline. Italy's steel industry, for example, reduced its oil requirements per ton of cast iron produced from 4.1 barrels in 1973 to 3.6 barrels in 1978; among advanced industrial countries, only Japan uses less oil—3.4 barrels—per ton of cast iron produced. Italian automobile owners also have contributed to the decline in oil imports; the cost of premium gasoline in November 1980 was five times greater than in March 1977

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### Italian Foreign Policy

The two foundations of Rome's foreign policy are NATO and the European Community. Although Italy is committed to full participation in both organizations, its role often is constrained by domestic factors [redacted]

In NATO, Italy is important to US interests for its geographic position—the centerpiece in the Alliance's southern flank—rather than its military, political, or economic clout. During the past year, Rome has made a concerted effort in NATO to express its solidarity with US foreign policy initiatives. For example, the Italians have worked hard to hold economic sanctions against Iran and measures against the Soviet Union resulting from its invasion of Afghanistan. As a result, however, Rome has been subjected to sharp domestic criticism—charges that it has risked the country's lucrative trade and financial relations with Tehran and Moscow and that it has acquiesced in US-sponsored actions. The government also has come under attack for allegedly acquiescing in US-dictated actions that threaten detente—widely popular in Italy [redacted]

The Communist Party is at once the main beneficiary of this positive Italian attitude toward detente and the first to criticize government policies that seem to be running counter to it. The Communists publicly accept Rome's participation in NATO as a defensive and geographically limited alliance. The party has taken great pains to associate its views on this matter with those of European socialists and social democrats who seem to lean toward a more autonomous role for their countries in the Alliance structure. At the same time, the Italian Communists have been determined to establish their own West European bona fides by distancing themselves where possible from the Soviet Union [redacted]

One of Rome's defenses against charges of subservience to the United States is to stake out a role as a full participant in NATO. By ensuring its involvement in NATO political consultations, Rome hopes to demonstrate to its domestic critics that it has an important and respected role in Alliance councils. The Italians, therefore, are highly sensitive to any moves that threaten to exclude them from a West European "directorate" that would act as the Alliance's principal interlocutor with Washington. In Rome's view, such

exclusion would undermine its efforts to take politically risky decisions on such questions as NATO's long-range theater nuclear force (TNF) modernization program. [redacted]

Rome's involvement in the TNF program is a case study of the government's vulnerability in the foreign and defense policy fields. Italy's participation in the TNF program initially was facilitated by the involvement of the United Kingdom and West Germany. This allowed Rome to "lose itself" in a consensus and avoid taking the lead on the issue. Rome also was able to portray the arms control aspect of the decision as being of equal importance to the modernization element, placing particular emphasis on the ratification of the SALT II treaty. By addressing two concerns shared by the Communists, the government was able to moderate that party's opposition to the program. [redacted]

Rome's ability to follow through on its TNF pledge also will depend on the resolution of the "two-key" question—Italy's role in controlling the missiles placed on its territory. In the meantime, the recent Italian earthquake has forced Rome to postpone temporarily the announcement of its TNF siting plans for fear that its opponents might charge it with diverting scarce funds to military expenditures instead of using them to rebuild the devastated areas [redacted]

Italy's membership in the EC is much less subject to internal criticism than the NATO connection because it does not raise the same issues about the United States and dovetails with the mood of the country and the Communists. Italy perhaps is the leading proponent of West European economic and political cooperation. Italian participation in a strong, more unified Western Europe potentially could enhance Rome's voice on a variety of international issues. [redacted]

In the meantime, Rome's association with other West Europeans on some controversial international issues remains an important factor in limiting domestic attacks on its policies. For instance, Italy supports the results of the *Camp David initiative*, but its dependence on Arab oil makes Rome share the greater openness of other West Europeans in dealings with the

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Palestine Liberation Organization as well as their interest in involving the PLO in the Middle East peace process [redacted]

On the *Polish* question, the Italians—like other West Europeans—are deeply concerned about the possibility of Soviet military intervention, whether direct or indirect. At the same time, Rome is reluctant to commit itself to specific NATO retaliatory responses before the fact, hoping to salvage whatever is left of the tarnished concept of detente. Italy, in conjunction with its West European neighbors, would much prefer to avoid a worse-case scenario by joining to pump economic aid into Poland with the aim of defusing the political crisis. Although Italy's European "calling"—as exemplified by these issues—sometimes seems at odds with US interests, Rome often has shown a willingness, as when Italy was President of the EC for six months last year, to act as a go-between in Washington's relations with Paris, Bonn, and London. [redacted]

Beset by domestic problems, the Forlani government probably will assign a low priority to foreign policy issues. The coalition will continue to balance Italy's Atlantic and European orientations, but the rising chorus of opposition from both within and outside the government will compel it to minimize the domestic repercussions of its relationship with the United States in NATO. On the other hand, in the event of an international crisis—such as Soviet intervention in Poland—Forlani's Christian Democrats might seize on their US ties to draw sharp distinctions between the government and the Communists. [redacted]

This tactic also might shore up the coalition by convincing the Socialists—who have gone out of their way to back the government on foreign policy this past year—to dampen down their newfound enthusiasm for attacking their governing partners on the domestic front. At the same time, the Christian Democrats will attempt to reduce potential conflicts with both leftist parties by trying to associate the government more closely with its West European Allies where a consensus exists in foreign policy. In the event of a growing divergence between the United States and its West

European Allies in the international arena, Italy's position will be determined by the quality of its treatment within NATO. If Rome feels it is perceived as a major partner, the Italians probably will work to minimize differences between Washington and Western Europe. [redacted]

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