



The President's Daily Brief

December 6, 1976

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FOR THE PRESIDENT ONLY

December 6, 1976

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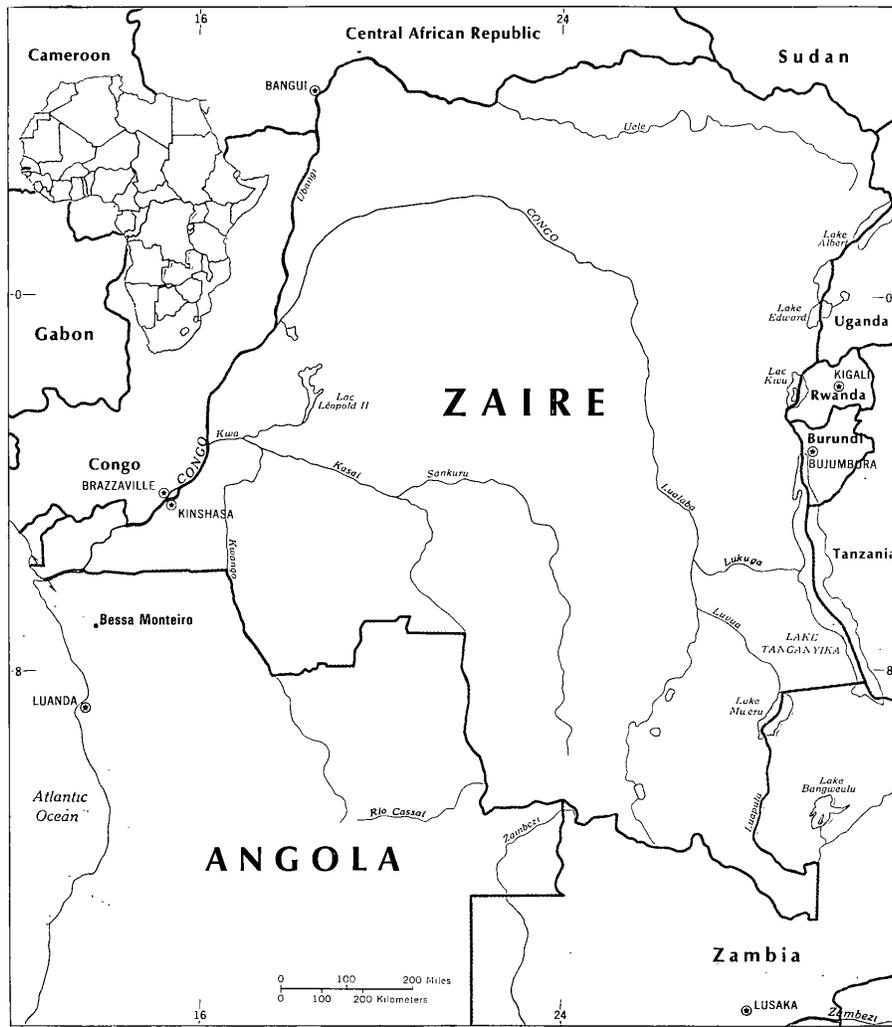
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United Kingdom: As a condition for securing a \$3.9 billion credit from the International Monetary Fund, the Labor government is likely to agree to cut its budget, including a reduction in defense expenditures. (Page 1)

Note: Japan (Page 3)

At Annex we discuss the dilemmas that continuing rapprochement has created for the Christian Democrats and Communists in Italy.



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UNITED KINGDOM: As a condition for securing a \$3.9-billion credit from the International Monetary Fund, the Labor government is likely to agree to cut its budget, including a reduction in defense expenditures.

Defense spending, one of the largest items in the national budget, is an attractive and vulnerable target in the intense cabinet battle going on now over how to implement the terms for an IMF loan.

Left-wing Laborites will insist that the government honor its election pledge to bring British defense spending into line with France and West Germany. The UK currently spends about 5.5 percent

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of its gross national product on defense compared to the 3.5 to 4 percent spent by France and West Germany respectively.

The Labor government has cut military spending four times since it returned to power in February 1974. Defense Secretary Mulley hopes the new slash can be held to around \$80 million, but it will probably be in the range of \$165 million.

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NOTE

The ruling Liberal Democratic Party's fight in Japan to retain a majority of officially endorsed candidates in the lower house has fallen short.

With unofficial returns in this morning for all 511 seats, 249 LDP candidates have been elected, just below the 256 needed. Independent candidates, however, did surprisingly well; 21 were elected, many of them conservatives who may affiliate with the LDP in the new Diet.

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ITALY



Italian Prime Minister Andreotti is grappling with the most difficult combination of economic and political problems to confront an Italian government leader in years. Andreotti's dilemma is that his Christian Democratic minority government must rely on Communist cooperation to enact and implement an urgently needed economic stabilization program, while the Christian Democratic leadership is searching for ways to revive a non-Communist governing coalition.

Prime Minister Andreotti Unable to muster support for such a coalition among their traditional allies following last June's election, the Christian Democrats have been forced to bargain for Communist abstention in parliament in order to install Andreotti's government and enact austerity measures required to halt the worsening of the economic situation, particularly spiraling inflation and the growing balance-of-payments deficit. In return for their abstention--and for keeping labor protest within manageable limits--the Communists have received key parliamentary posts previously denied them and a larger consultative role in government policy making.

Communist Problems

Communist leaders appear convinced that unless they work with the Christian Democrats and demonstrate a responsible attitude toward Italy's pressing economic and social problems, they cannot achieve membership in the government without triggering unacceptable levels of domestic and international uncertainty. The major risk for the Communists is that their traditional working-class base will become increasingly alienated by the party's acquiescence in austerity measures that will hit hard

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at lower-income groups. This risk is offset somewhat by the failure so far of the other leftist parties to present themselves as credible alternatives or to develop the kind of organizations necessary to compete with the Communists' vote-gathering machinery.

The longer the de facto partnership between the Communists and Christian Democrats continues, the more likely it becomes that Italians will view any governmental success as a by-product of collaboration between the two parties. This, in turn, would tend to make Communist chief Berlinguer's three-year-old offer of an "historic compromise" with the Christian Democrats look less threatening.

The Christian Democrats

The Christian Democrats face a dilemma in weighing the probable consequences of closer collaboration with the Communists against the implications of an attempt to put together a government more insulated from Communist influence.

Perhaps the greatest limit on the Christian Democrats' freedom of maneuver stems from their long-time emphasis on anti-Communism. The party, in fact, managed to retain its plurality in the June election by draining right-wing support from the smaller parties--such as the neo-fascists--with a very tough anti-Communist campaign. Any move toward more formal collaboration with the Communists would seriously jeopardize the Christian Democrats' base of support among anti-Communist voters and would severely strain the cohesion of the Christian Democratic leadership.

Governmental Problems

Closer relations with the Communists would create serious internal problems for the Christian Democrats, but as they look to the future the Christian Democrats can draw little comfort from the fact that a non-Communist majority still exists in parliament. The Christian Democrats' former allies might eventually be persuaded to rejoin them in the government, but any attempt by the Christian Democrats to push the Communists to the sidelines would risk incurring the kind of Communist opposition that would make Italy even harder to govern.

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Moreover, the Socialists, whose support the Christian Democrats must have to form a non-Communist government, would not be likely to go along unless the Christian Democrats were willing at least to seek Communist support for government programs. The Socialists are well aware that Communist abstention or support in parliament is frequently necessary to offset Christian Democratic defections during votes on controversial social and economic programs. The Socialists also want to ensure that the Communists share some of the responsibility for potentially unpopular government decisions.

The Christian Democrats thus face unpalatable choices, whether they move toward more formal collaboration with the Communists or try to put more distance between themselves and Berlinguer's party. Neither the Communists nor the Christian Democrats want to force the issue now, and it is likely that their uneasy rapprochement will continue for at least several more months. Most factors in the Italian political equation seem likely to drive the Communists and Christian Democrats closer together rather than farther apart.

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