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West Europe Report

(FOUO 11/82)



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WEST EUROPE REPORT

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ECONOMIC

ITALY

REPORT BY EXPERTS ON STATE OF ECONOMY

Milan IL MONDO in Italian 18 Dec 81 pp 31-44

[Article by Nicola Forti, with contributions from Risella Bocciarelli and Paola De Benedetti]

[Text]

Summary

The government's economic game plan for 1982 centers on two objectives: holding inflation below 16 percent and achieving 2 percent real growth in the gross internal product. To achieve these two end goals, two interim goals have been set: a 50-trillion-lire ceiling on total requirements of the expanded public sector and a 73-trillion-lire ceiling on total internal credit. What are we to make of this game plan? All participants in the roundtable underscored the lack of up-to-date and complete background information, particularly on financial flows, upon which to base an analysis to assess the figures presented for 1982.

From the international point of view the picture looks fairly promising. The experts predict a degree of stability in raw materials and energy sources. The increased prices on Italian imports should therefore not exceed 11 to 13 percent, barring unforeseen changes in the exchange rate.

The credit squeeze, made more painful because it has lasted longer than any in living memory, will have to continue if the government wants to hold total internal credit below 73 trillion. But is the financial picture compatible with the hoped-for 2-percent real growth? So sustained a rate of growth, by comparison with the other industrial countries, will, can keep from causing problems in the balance of payments only if the goal of containing inflation is actually achieved.

Containment of the inflation rate will depend on agreement between labor and industry. However, there are no incentives or penalties cogent enough to motivate both parties to stay inside the stated goal. Some of those at the meeting suggested an incomes policy and a price policy with fiscal incentives and disincentives (TIP).

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The credibility of a 50-trillion-lire requirement for the expanded public sector depends primarily on the accuracy of revenue and expenditure predictions. This fact gives rise to two hypotheses: 1. if the 10-percent goal is achieved, revenues have been overestimated; 2. if, on the other hand, inflation should increase at a higher rate than predicted, then expenditures will prove to have been underestimated, beginning with expenditures on interest payments. Other problems may be expected to arise from the Social Security (INPS) regulations and from the ceilings placed on local government spending.

Public finance strategy for 1982 tends to reduce the large public deficit, aiming at containment of entitlement expenditures through abolition of special funds. Among its positive aspects, therefore, must be reckoned the restrictions on discretionary spending by parliament and the new rule that cuts off carryover of appropriations at 3 years following the initial budgeted disbursement. There were two critical points made, however:

public finance strategy is devised for the short term; and

no structural measures were adopted to cut down on waste and improve efficiency in public spending. Several proposals were made for remedying this situation. One would be to: a. improve the structure of the budget, classifying items of expenditure according to function, so as to enable citizens to examine the quality of expenditures in relation to variations in the tax burden; b. give taxing powers to local governments and, perhaps later on, give them control over health expenditures and then revise the pension system.

Financing the deficit, given the overall state of the money market, will require new issues of BOTs. Will families and banks keep on soaking up such an enormous flood of securities? A lot will depend on the overall economic picture and particularly on the continued habit of family savings. In fact, with a slowing inflation rate, expectations of those rates would turn around and the propensity to save should rise, thereby relieving the treasury of some of its problems. Should that not happen, though, and in the event the economic policy goals should not be reached, the problem of placing BOTs would become more complicated. The danger of saturating family savings demand for BOTs could be averted in part by a broader range of offerings, with greater diversification in government securities. One proposal whose soundness was discussed was one for issuing treasury certificates indexed to prices. Should this be the road chosen, there would have to be some modifications in the regulations to make it easier to place them.

* * *

Is the economic policy Giovanni Spadolini's government has come up with credible? Will there really be some improvement in the public finance books? And how will the treasury handle the deficit? According to IL MONDO's scientific panel, the government's plan does not aim at particularly ambitious goals: actually, 10 percent inflation and 2 percent real growth are the absolute minimum needed for any genuine upturn in 1983. And yet even these modest goals are by no means certain of achievement, for two fundamental reasons: the budget policy reveals a

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number of incongruities and is based on what are not always realistic assumptions; in the second place, there has been no change in the built-in mechanisms that drive the vicious circle: non-productive expenditures, public deficit, and massive BOT issues.

This cry of alarm takes on added dramatic impact in that it comes in the report published here from some of the most prestigious of Italy's economists, who every 6 months provide IL MONDO with a careful analysis of the problems of greatest moment at that point. They are: Mario Baldassari, lecturer on political economy at Bologna, Lucio Isso, professor of political economy at Rome, Mario Monti, lecturer on monetary theory and policy at the Bocconi in Milan, Franco Reviglio, professor of the science of finance at Turin University, Luigi Spaventa, professor of political economy at Rome and an independent leftist member of parliament, Angelo Tantazzi, professor of economics at Bologna and secretary of the Prometeia research center. Drs Marcello De Cecco, professor at the European University in Florence, and Innocenzo Cipolletta, director of the Institute for the Study of Economic Trends (ISCO), were not able to participate in the preparation of this report.

A Very Iffy Recovery

In 1982 those outside factors which contributed so heavily to the heating up of inflation abroad over the past 2 years might work in reverse. We foresee a generalized decline in interest rates, both in the United States and in Germany: we foresee some advance for the mark against the dollar, partly as a consequence of Germany's improved balance of payments and of the worsening in America's. The persistence of depressed conditions in the industrial countries would prevent any major increases in raw materials and energy prices. As a consequence, according to widespread opinion, the rise in lira prices of Italian imports should be contained, assuming there are no sudden drops in the exchange rate, to within 11 to 13 percent. This would seem to indicate a remarkable chance to reduce Italy's inflation rate, and the 16-percent target might well look fairly modest. But, even admitting that the target is not overly ambitious, will we manage to reach it? And can we reach the other target of 2-percent growth in the GIP?

In relation to these two end goals, the government has set two interim targets: a 50-trillion-lire ceiling on total requirements of the expanded public sector and a cap of 73 trillion on the expansion of total internal credit (TIC). How are these interim targets to be reached? The participants in the meeting have divided their analysis into three parts:

1. The general outline of the government's proposal and the practical agreement between the interim targets in public-sector requirements and the TIC and the end goals for inflation and growth.
2. Analysis of the moves on public revenues and expenditures, viewed in the context of the budget and the 1982 finance bill.

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3. The problem of deficit coverage.

1. Economic Policy

a. Lack of adequate background data.

All participants underscored one point: the extreme uncertainty arising out of the lack of a complete and up-to-date body of background data. The most serious gap is in data on financial flows: in the government's documents not only is there no forecast of financial flows for 1982, but the figures for 1981 are not even cited. On top of the very grave delay in publication of financial data (as of June 1981), we get distortions in the monthly statistics on bank loans, due to the fact that the ceiling forces the banks to engage in some extraordinary acrobatics in order to stay below it for the month-end audits. Similarly the annual figure for total internal credit (73 trillion in 1982, although we still do not have the estimate figures for 1981) is not very meaningful: it is in fact calculated at the end of December, precisely when the behavior of the banks is even more suspect by reason of their efforts to inflate their deposits in view of their annual reports. Hence any comparison between the two TIC figures for year's end is of merely relative value.

b. Tightening Credit Squeeze and Growth Targets

An interim target of 73 trillion implies a generally restrictive financial situation, witness the drop in the ratio between the rise in TIC and the rise in GIP in monetary terms (18 percent, according to the government). The effects of the restriction will be made more acute by the predictable worsening of the financial straits of business and by the decline in corporate capacity for self-financing as well as by a curtailed access to risk capital and other financial instruments, such as acceptances. In addition, the squeeze has proven extremely lengthy by comparison with any in the past (earlier experiences lasted 6 to 9 months, while the current phase has been with us for at least 18 months). Elsewhere, the absence of data on state transfers to corporations and on the quantity of foreign loans the public sector can expect to get makes it impossible to quantify the real availability of financing to the private sector. It is difficult to judge the degree to which the 1982 financial picture is compatible with the hoped-for real growth of 2 percent: it might be so only on condition that we get a visible slowing of the inflation rate by comparison with the trends we have seen this year. Some such reduction in the inflation rate, furthermore, is also a prerequisite to make certain that 2-percent growth, higher than any predicted in other industrial countries, does not trigger a third consecutive year of very high deficits in the operating budget. Some participants are of the opinion that, even should inflation be held to 16 percent, a 2-percent growth rate would not be compatible with the restraints imposed by foreign exchange. This proportion is based on two points: the low growth predictions prevailing in other countries, most particularly in Germany; and the competitive position of Italian products a 16-percent inflation rate might entail.

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c. Labor Costs and the 16% target

The government has left it up to labor and management to hammer out an agreement that will allow incomes and prices to rise by no more than 16 percent in 1982. According to the participants, though, the government's strategy as of now contains neither adequate incentives to motivate the parties to stay under the ceiling, nor adequate penalties for those who may transcend it. The sole reference in this connection, in the forecast and planning report, is cryptic: should labor and management hamper the effort to stay beneath the ceiling, "the government reserves the right to use the investments and employment fund (2.5 trillion lire available for 1982) in a compensatory direction." In the real world, for any recovery maneuver there are far sharper instruments, particularly financial tools, ready to hand. One assumption suggested by some participants is that of a genuine tax-based incomes policy (TIP), which means an incomes and price policy embodying tax incentives and penalties. For example in 1982, the government might eliminate the tax drag on workers' incomes, provided they rise no higher than the planned rate of inflation: in terms of real income, the average tax load would be the same as it was for 1981.

Other participants, though, feel that any fiscal incentive should be granted only as part of a structural, rather than a temporary policy on labor costs and prices. As for the cost-of-living index, it would thus require substantial adjustment to the mechanism, rather than freezing it into the confines of a short-lived maneuver that will end with 1982.

2. Budget and Finance Bill

The likelihood of reaching the interim target of a 50-trillion-lire requirement for the public sector rests to a high degree on the reliability of the liquidity level predictions for the national budget. All our participants voiced strong reservations as to the reliability both of revenue predictions and expenditure estimates.

In the first place, the underestimation of the national budget deficit might stem from the circumstance that the revenue and spending forecasts seem to be based on differing estimates of the trend in nominal income. In short: if the inflation-rate containment target is achieved, while the nominal GIP rises to 18 percent, it is most unlikely that revenues will increase by as much as called for in the budget forecasts; if, on the other hand, the inflation rate turns out to be higher than expected and sought, there will be no overestimate of revenues, but there may well be an underestimate of expenditures. As for revenues, in fact, it is difficult to reconcile growth rates of 46.5 percent in IRPEF from income withheld at the source on earnings from regular employment and of 38 percent from the value-added tax (IVA) with a call for 18 percent growth in the GIP and with the aim of holding down wage increases: with reference to that assumption, the figure of 3 trillion underestimation, which has been mentioned several times, does not look too far out of line. As for expenditures, should the inflation rate be such as to justify the revenue forecasts, there should at least be some

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downward revision in the predicted level of interest payments, which is posited on declining inflation and taxes.

In the second place, it is hard to imagine the simultaneous fulfillment of all three conditions upon which containment of current expenditures largely depends.

a. State Budget Forecasts

1. There is no provision whatever for wage increases under collective bargaining for government employees, even though their contracts are due to run out in 1982.

2. There is a 5.5 trillion ceiling clamped on Social Security (INPS) for advances from the treasury. In 1981, though, that ceiling was exceeded by more than 3 trillion. How in the world is INPS going to abide by that much tighter ceiling in 1982? As things stand now, 5.5 trillion lire is considered adequate to finance requirements until August or September, after which new sources of revenue will have to be found: they can hardly be expected to come from increased contributions.

3. Another condition laid down by the government is observance of the ceilings set for local governments (a 16-percent rise for the regions, 2.5 trillion for the communes) and for health spending. There is a risk, though: setting ceilings without first adjusting the mechanisms that govern spending entails creating hidden spending. A government with a deficit will in fact be obliged to refrain from paying its suppliers or to resort to bank loans, thus draining resources away from the private sector; barring that, it will earmark part of its advance funds for public works to finance its current expenditures. This trend was already visible in 1981, which means that the 1982 budget may already be compelled to deal with the submerged debts from the previous year. The problem for health spending looks particularly serious, in that there is a very grave lack of hard data on it and there is no way at present to maintain any effective control over expenditures by local health agencies. Some estimates cite underassessments of 5 to 8 trillion lire for health expenditures. According to other observers, however, there aren't any underestimates for health spending in the 1982 budget.

Widespread concern at underestimates of expenditures might be partially (but only partially) allayed by the finding that, for 1982, there seem to be predictions as to availability of appropriations a good deal higher than that recorded in previous years. This finding has to do mainly with expenditures called for in the finance bill. One might of course reply that, as happened last year, the remainder balances from last year might be considerably higher than expected. Once again, we must point out that any analysis is thwarted by the total lack or the deplorable quality of available data.

It might also be noted that the high level of remainder balances (available as of the end of 1981 and counted as the difference between the total available for spending and the estimates on 1981's closing figures) justifies the moderate rise in entitlement spending for 1982, in order to absorb the sharp rise in spending enacted in the past and consequently to restore some balance to the budget forecasts.

b. Structural Effects of the Budget Strategy

According to our experts, there are two observations called for with respect to government spending strategy for 1982, and to some degree they conflict. On the one hand, the strategy is designed to regain control over the deficit after the sudden upsurge in the first half of 1981, due to the impact of the massive decisions on increased spending and cutbacks in revenues enacted in 1979 and 1980. In 1981 the government stepped in primarily on the current budget, drastically reducing spending authorizations and leaving a heavy inherited burden of negative remainder balances for 1982. Now the strategy for 1982 is aimed primarily at holding down entitlement spending by rescinding all the special funds in the finance bill, with the exception of monies for the investments and employment fund and for renewal of fiscalization, and through cutbacks to the 1982 level of all continuing expenditure measures. This approach was generally approved by the experts, partly because it drastically curtails the opportunities for any more discretionary spending moves on the part of parliament. Practically speaking, then, there was an attempt to flatten out the big hump in the current deficit brought about by the decisions of 1979 and 1980, thus bringing the growth trend in spending back into line with the GIP. If this transition measure succeeds, the 1983 budget will not be subjected to further pressures in the direction of bigger deficits.

Another sound innovation has to do with the rule that cuts off remainder carryovers after 3 years. Uncalled-for, though, for purposes of mid-term planning, is article 42 in the finance bill, which cuts off the option of committing the ~~sum~~ total of multi-year expenditures distributed over several years. On the other hand, though, the government's strategy is open to two criticisms. In the first place, it is confined to the short-term outlook, as evidenced by the confused and contradictory tax maneuver coming after the finance bill (see below). The second criticism has to do with the inconsistency of the decisions taken to curtail waste and inefficiency in government spending. You certainly cannot get the budget back into proper shape by taking little snips at it here and there: the problem is still that of adjusting the built-in mechanisms that fuel increases in spending.

One early proposal in this direction has to do with improving the qualitative presentation of public spending. The 1982 budget and finance bills in fact continue to fall short of the intentions of PL 468, insofar as concerns the requirement for clarity and comprehensibility in titling the items under which the figures are entered. The idea was to come up with a budget structured on the basis of expenditures, in which it would be quite clear how much is to be spent on health, how much on

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education, how much on energy, and how much on research, so that everybody could readily understand the government's books.

A second proposal has to do with measures needful to offset the mechanisms that underlie waste and inefficiency. In the first place, the participants emphasized the need for returning taxing authority to local governments, granting them the right to assess and collect real estate taxes or, should that prove difficult to implement, to levy an income tax within a range of percentages to be set on the national level and pegged to the IRPEF, which would be simple to manage. In the long run, the taxing autonomy road might be taken for other sectors as well, beginning with health expenditures.

Another set of proposals has to do with the pension system: lowering the index for those pensions with an elasticity factor greater than unity, careful checking of the combined amount of the pension and other income, and revision in the terms of disability pensions.

c. Oscillations in Tax Policy

According to all participants in the meeting, tax policy has been marked of recent months by one-shot measures which have occasionally proved contradictory. The government has granted promises of fiscal relief in the IRPEF and, on its own initiative, abolished the boost in IRPEF proposed in the wake of the earthquake. Immediately thereafter, it found itself faced with unforeseen deficits (declared as such within days of the introduction of the finance and budget bills): it therefore had to raise the gasoline tax and astring of stamp taxes, and introduce a tax on acceptances. It then retained the surtax on the IRPEF and ILOR, actually proposing to raise it from 5 to 8 percent. At the same time, it introduced a proposal to reassess corporate sources of income and at the same time exempted small artisan-scale businesses from the ILOR. It extended to 1982 (September 1982, by Senate amendment) the tax cut on bonds and raised the tax on bank interest to 21.6 percent. It introduced other increases on minor taxes and again increased the prepayment requirement for non-withhold earnings for 1982. By that procedure: a) it lost any and all political advantage -- and there was no small advantage to be gained -- from its cut in the IRPEF; b) it gave rise to a situation of considerable confusion, partly with reference to a revenue projection; c) it completely gutted the promise of a fiscal truce. Meanwhile, there was not the least initiative shown by the government to encourage passage of some very important measures in the crackdown on tax evasion, such as the elimination of the prejudicial tax challenge, mandatory use of cash registers, tax collection, and reform of the Revenue Offices.

The absence of any overall plan becomes particularly evident when it comes to the fiscal system regulating financial activities. The proposals of the commission set up to study the problem (uniform treatment, with indexing descending with the distance of the due-date) went unheeded, while the fiscal measures adopted to cope with the emergency have pushed the prospects for reform still further into the future.

3. Financing the Deficit

a. Family and Bank Purchases of BOTs

One of the government's announced goals is to hold the internal requirements for the state-participation sector below 43 trillion lire, a sum slightly below the 1981 level. However, bearing in mind the sharp increase in the quantity of loans they plan to repay, and the very large issues of government securities reaching maturity, we find that the flow of payments the treasury will have to face will be extremely high. To finance these disbursements, the treasury will have to rely increasingly on its BOTs, in view of the slowdown in postal savings accumulation and in sales of medium-term securities, and given the commitment, in which the Bank of Italy has joined, to keep tight limits on the currency supply so as to keep inflationary expectations in hand. In this context, the demand for BOTs by families and banks becomes crucial. Will it be enough to absorb the flood of BOT issues?

In the view of the participants in our meeting, a great deal depends on reaching the goals the government has set, particularly those of holding down the deficit and the inflation rate. The fact is that, in a scenario calling for public-sector requirements under control and of declining inflationary expectations, one can predict some firmness or even a slight rise in the readiness of families to hold financial securities, and hence the possibility that the treasury will be able to place its BOT issues in private portfolios, even at slightly lower yields. As for the banks, is it sound policy to earmark several short-term BOT issues for them, as was done recently? The treasury's rationale is that creating a double market for BOTs could get bankers back into buying government paper, thus facilitating the placement of such a gigantic mass of securities. At the same time, slight saver elasticity to BOT yields would facilitate the drop in rates of return on 6- and 12-month bills. On this score, though, there are two puzzling questions. In the first place, the savers might well react negatively to any prolonged decline in return. In the second place, the banks' return on short-term BOTs makes it difficult to shift to less distorting forms of monetary policy. For years, as the divorce between the treasury and the Bank of Italy indicates, government has been trying to slacken direct controls over credit based on statutory ceilings on commitments, which engender distortions and inefficiency, and to move to indirect controls based on regulation of the monetary base and on bank reserves. This goal was also facilitated by the sharp drop in BOT holdings in the banks' portfolios.

If the government's goals are not met with compliance, the whole problem of BOT placement will become far more complicated, whatever else happens. With a high deficit and persistent expectations of high inflation, there might not be the expected increase in the propensity toward thrift, after the drastic decline it has undergone in recent years, and we might see a continuation of the trend toward shifting investment away from financial paper toward tangible holdings. Should this happen, the treasury would have to raise BOT rates of return up again

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to ward off the danger of mass liquidation, spurred by persistent rumors in banking circles about a possible government move to consolidate BOTs.

Of recent months, even the spectre of future taxation on government securities has been raised to discourage their purchase by families, carefully failing to point out that any tax could be levied only on new issues, not on those already in circulation.

From the foregoing picture it seems quite clear that so high a public deficit will require for its service not only a heavy interest burden on the state coffers, but also the emergence of a set of increasingly problematical conditions: a high tendency to practice thrift on the part of families, penalties on alternative placements (from houses to sheltered investments, to bank deposits and investments abroad), rigid adherence to credit ceilings, the continuance of a tax advantage for government securities. In practice, a whole string of constraints is going into place to force investors to finance that portion of the current budget deficit which acts to make transfers to those same investors who use them to buy the securities that will finance their own consumption. To break the vicious circle there is only one thing to do: keep the lid on public spending, which consists in large part of transfers to corporations and families.

b. Broadening the Range of Government Securities

Of recent years the shift in public preference from bank savings toward BOTs has gone on steadily, concentrating primarily on the shortest-term BOTs. This tendency, even though it did make it possible to finance the public debt without resorting to monetary means, raises two kinds of problems. On the one hand, we have that of postponing maturation dates and containing the cost of the BOTs, so as to avoid successive waves of redemptions and new issues, which are directly affected by the changing preferences of family investors and banks. On the other lies the risk of saturating the demand for BOTs, particularly among family investors -- who might well be interested in diversifying their holdings over a broader range of government securities. One idea worth careful consideration as a response to these two problems is to issue treasury certificates pegged to the price index, as is being done with increasing frequency in the United States and in Great Britain. Opinion is anything but unanimous on the soundness and advisability of this innovation: the governor of the Bank of Italy himself, Carlo Azeglio Ciampi, has come out against it, stating that it would mean surrendering to inflation, but at the same time citing a long list of the distortions which, if you look at them closely, are partially attributable to the absence of securities tied to any real index.

Tab. 1 Come va la congiuntura (1) (Conti economici trimestrali - dati depurati della componente stagionale)				
(2) Medie trimestrali	(3) Prodotto interno lordo	(4) Importa- zioni	(5) Esporta- zioni	(6) Investi- menti fissi lordi
(7) MILIARDI DI LIRE A PREZZI 1970				
1980	21.392	4.640	4.894	3.778
II 1980	21.532	4.604	4.828	3.805
III	20.943	4.604	4.694	3.682
IV	21.370	4.511	4.802	3.884
I 1981	21.495	4.470	5.035	3.905
II	21.235	4.240	5.200	3.785
III	20.890	4.105	5.200	3.735
(8) Variazioni percentuali sul trimestre precedente				
1980	4,0	7,9	-4,3	10,0
II 1980	-0,9	-4,9	-8,1	1,6
III	-2,7	-	-2,8	-3,2
IV	2,0	-2,0	2,3	5,5
I 1981	0,6	-0,9	4,9	0,5
II	-1,2	-5,1	3,3	-3,1
III	-1,6	-3,2	-	-1,3
III 81/III 80	-0,3	-10,8	10,8	1,4

KEY:

(1) Table 1 HOW THE ECONOMY IS DOING

(Quarterly indicators adjusted for seasonal factors)

(2) Quarterly averages

(3) Gross Internal Product (GIP)

(4) Imports

(5) Exports

(6) Gross fixed investments

(7) Billions of lire at 1970 prices

(8) Percentage variations from previous quarter

Nelle casse dello stato

Tab. 2

1: Miliardi
2: Variazioni % su anno precedente
3: Quota % sul Pil

A) Entrate finali
— altre entrate
— oneri fiscalizzati
— riserve proprie Cee
— ridisegno Irpef
B) Spese correnti
— oneri fiscalizzati
— riserve proprie Cee
— ridisegno Irpef
C) Spese correnti effettive (1)
Interessi
D) Spese correnti effettive al netto inter
E) Disavanzo corrente (A — B)
F) Disavanzo corrente al netto inter
G) Spese in conto capitale
H) Rientro depositi bancari
I) Fabbisogno complessivo (A — B — F + G)

Pil
Fonti
Bilancio di competenza assestato 1981
Legge finanziaria 1982
Relazione previsionale e programmatica 1982
(1) Al netto delle partite di giro relative agli oneri fiscalizzati e alle risorse proprie Cee e dopo avere imputato l'oneri per il 1982 derivante dallo sgravio Irpef all'esame del parlamento, a meno entrate tributarie e dei successi ufficiali questo onere si trova nel fondo globale delle spese correnti

BILANCIO DELLO STATO: COMPETENZA	1981 (assestato)	1982	1	1981	1	SETTORE STATALE: STIME DI CASSA (bilancio e tesoreria)	1982	
1	2	3	1	2	3	1	2	3
110 509	18,1	27,6	142 607	29,0	30,3	126 812	23,4	31,7
—	—	—	1 200	—	0,3	—	—	—
2 818	—	—	7 000	—	—	2 613	—	—
3 230	—	—	3 735	—	—	3 230	—	—
—	—	—	2 100	—	—	—	—	—
104 461	19,4	26,1	130 972	25,4	27,9	120 969	23,1	30,2
141 291	12,7	35,3	161 933	14,6	34,4	150 921	27,8	37,7
2 818	—	—	7 000	—	—	2 613	—	—
3 230	—	—	3 735	—	—	3 230	—	—
—	—	—	2 100	—	—	—	—	—
135 243	13,4	33,8	149 098	10,2	31,7	145 078	27,7	36,3
21 468	33,3	5,4	31 384	46,2	6,7	25 260	47,2	6,3
113 775	10,3	28,4	117 714	3,5	25,0	119 813	24,2	29,9
—30 782	—	—7,7	—18 126	—	—3,8	—24 109	—	—6,0
—9 314	—	—2,3	13 258	—	2,8	1 151	—	0,3
37 951	36,3	9,5	43 857	15,5	9,3	25 491	19,2	6,4
—	—	—	—	—	—	3 000	—	0,7
—58 743	—	—17,2	—61 983	—	—13,2	—46 300	—	—11,6
400 000			470 000			400 000		

KEY: TABLE 2 IN THE STATE'S COFFERS

STATE BUDGET: ENTITLEMENT STATE SECTOR: FUND ESTIMATES
(budget & treasury)
1981 (balanced)

-
- 1. Billions
 - 3. Percentage variation from previous year
 - A. Closing revenues
 - other revenues
 - fiscalized costs
 - EEC reserves (outstanding)
 - IRPEF redesign
 - A. . Actual revenues (1)
 - B. Current expenditures
 - fiscalized costs
 - EEC reserves (outstanding)
 - IRPEF redesign
 - B. Actual current expenditures (1)
 - interest
 - C. Actual current expenditures, net (no interest)
 - D. Current deficit (A - B)
 - E. Current deficit, net (no interest)
 - F. Capital expenditures
 - G. Return on bank deposits
 - H. Overall requirement (A - B - F + G)
-

Gross Internal Product

Sources:

Balanced 1981 entitlement budget
1982 Finance Bill
1982 Forecast and Planning Report

- (1) not counting outstanding sums for fiscalized costs and EEC reserves, and after charging the 1982 cost stemming from the IRPEF reduction now before parliament to lower tax revenues (in the official documents this cost is found in the grand total of current expenditures).

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TABLE 3. HOW MUCH CREDIT FOR THE PRIVATE SECTOR?

State budget requirements (A)	53,000
Treasury surplus (B)	1,000
Revenues from new taxes (C)	1,200
State sector requirements D = (A-B-C).....	48,000
Requirements of agencies outside the state sector (E)....	2,000
Total requirements extended public sector F = (D+E).....	50,000
Public sector resort to outside indebtedness, consolidations and funds transferred to the lending institutions (G).....	7,000
Internal requirements, extended public sector H (F - G)	43,000
Internal credit in the private sector.....	30,000
Total internal credit	73,000

Table 4. FINDING THE REQUIREMENT

	Entitlement	Funds	Fund estimates
Final budgeted expenditures	205,790	205,093	197,600
Final budgeted revenues	142,607	147,291	147,300
State Budget Requirement (net to be financed) as follows:	63,183	57,802	50,000
-- Chargeable to the budget under continuing statute	35,590	33,572	28,070
-- Chargeable to provisions in the Finance bill	27,593	24,230	22,230
Repayment of state loans	26,334	26,349	
Maximum resort to money market	89,517	84,151	

Table 5.

THAT BIG HOLE IN 1980

Effects on the public deficit of measures
taken in the March-September 1980 period

	Yearly deficit growth		
	1980	1981	1982
Putting COLA increases for government employees on a quarterly basis	950	1,500	1,300
Increasing family subsidies	900	2,400	2,400
Pension increases (in deficit)	1,215	1,250	1,300
Contract renewal increases for government employees	2,000	5,500	5,500
Fiscalization of social program costs	1,800	4,00	4,500
Increased IRPEF withholding	1,000	2,200	1,600
TOTAL	7,865	16,850	16,600

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POLITICAL

ITALY

COMMENTATOR BARBIERI ANALYZES PCI-CPSU DISPUTE

PM051501 Turin LA STAMPA in Italian 26 Jan 82 pp 1-2

[Commentary by Frane Barbieri: "The Anathema and the Shield"]

[Text] I have witnessed Tito's excommunication in Belgrade, Mao's excommunication in Moscow and now Berlinguer's excommunication in Italy. I identify the first difference in the moods: in Yugoslavia Stalin's attack caused apprehension, people were afraid of being crushed by the Soviet colossus; on the other hand, the break with Beijing caused fears among the Muscovites, historically hagridden by the "yellow peril"; in Italy now PRAVDA's anathema is being received almost with relief, as if the PCI had finally freed itself from an intolerable handicap.

But there are even more substantial differences among the three excommunications. It was Stalin who leveled grave criticisms against Tito, and the excommunication came when the Yugoslav leader refused to accept them. On the other hand Mao accused Khrushchev first and then broke away on his own, without awaiting the anathema. Berlinguer has also attacked first, prompted by the Soviet action in Poland, without worrying about the consequences.

Neither the Comintern nor the Cominform, from which one could be expelled, now exists. In this instance the excommunication can only be ideological. And if it has occurred, it has occurred both ways: Berlinguer rejects Moscow as much as Moscow is rejecting Berlinguer.

In fact in the first two instances two states, rather than two parties, were expelled from the so-called socialist world. They could be exposed to economic, political and military pressures, subjected to subversion and even strangled with force--all of them means attempted by the USSR both against Yugoslavia and against China. But the PCI, behind the disputed "NATO shield" (who knows how clear-sighted Berlinguer was in mentioning it 5 years ago?) cannot be invaded or subjected to state blockades; it can be opposed only within the framework of a democratic Western dialectic in which its means are definitely better than those of Moscow's followers.

There is also another common feature in the three excommunications: Against Tito, Stalin appealed to the "healthy forces" in the Yugoslav party, calling on them to overthrow the leaders; against Mao, Moscow expressed the hope that he could be forced to return to the correct Marxist-Leninist line; in the case of the PCI, PRAVDA maintains that every Italian Communist "cannot fail, of course, to be alarmed by the course now taken by this party's leaders," and implicitly calls for restoring to the PCI "the worthy place in the world front of peace and progress" to which "the stance adopted by the PCI leaders does not contribute at all."

In tackling these problems--that is, in the revolt against the leadership--party members, according to PRAVDA's incitement, will have "their most certain support in the USSR, in the CPSU, in the socialist community and in the international communist movement." This implies that the PCI leadership has broken away from all these mythical entities. What effect this call for a revolt against Berlinguer could have is not so important. These calls had no effect against Tito and against Mao, except that of strengthening them. Also if a pro-Soviet mini-party emerged in Italy, this would further highlight the autonomy gained by the PCI, making its line less contradictory and ambiguous. In what direction the PCI, freed from the more psychological than ideological and more ideological than organizational handicaps, intends to point its own autonomy is far more important.

The PCI has no ambassadors in Moscow to recall; it has a political line to detach from that of the USSR. It cannot be said that the conflict between Brezhnev and Berlinguer simply extends the Titoist area in the workers movement. Tito, Mao and Berlinguer have only autonomy in common. For the rest, the Yugoslav, Chinese and Italian parties have rather diverse stances in the international framework and different concepts concerning what socialist society should be like. However, they have in common recognition of the fact that differences of conception of socialism do not presuppose the disqualification of one or the other, and even less do they entail the supremacy of one over the other. In this sense Titoism is not the creation of a new area or of a new organized intercommunist center; it is the denial of all international centers and organizations.

At the Berlin Pan-Communist conference it was hoped (at least the Yugoslavs, the Italians and the Spaniards believed) that the Comintern structures and ties had been ended. The Kremlin's attack on the PCI demonstrates that these hopes were illusory. There are three accusations leveled against Berlinguer, and all three are correct, from Moscow's viewpoint: the PCI secretary general denies that the USSR is the principal force of peace; he denies that the gains of real socialism have a significance for the workers in the capitalist countries; he repudiates the great revolutionary doctrine by declaring that Marxism-Leninism is outdated.

The conflict lies in the fact that Berlinguer, in asserting all this, believes that he is opening up new prospects and a new "way" to socialism, while Brezhnev deems that Berlinguer is thereby breaking away from socialism, giving "direct aid to imperialism" and "also dealing the PCI a blow."

Replying, Berlinguer could only note that this is final proof that Moscow does not accept a dialogue among the communist parties. He discovers nothing new: Moscow cannot accept a discussion which calls into question all the USSR's past and future policy. With his critical sally concerning Poland Berlinguer had virtually opened up an extremely big issue: since nobody has yet reached the mythical socialism, it must be seen whether the road starting from the developed Western societies or that which passes through the East bloc countries of so-called real socialism is shorter.

The answer remains to be seen. But it is taken for granted that the roads diverge and that not even the goal appears the same any longer. In many respects Euro-communism has been born only today. And PRAVDA has paradoxically stood godfather by excommunicating it.

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MILITARY

ITALY

SOLDIERS TO RECEIVE INCREASE IN PAY

Milan IL MONDO in Italian 25 Dec 81 p 21

[Text] The money has come, and with it a slap in the face for those who did not get any. It happened after the Council of Ministers approved the military's request for an increase in pay. In an open letter, the chief of staff of the navy, Admiral Angelo Monassi, pointed with pride to the retroactive increase in pay that has been granted to armed forces personnel at a time of economic crisis which has "caused the freezing of action on similar requests put forward by other groups of government employees".

In fact, for the armed forces the country's general difficulties and problems related to containment of government expenditures were passed over. This increase granted to remunerate military employees entails a burden for the Treasury amounting to hundreds of billions of lire (according to some calculations between 400 and 600 billion). In practice, every member of the armed forces should pocket an additional 200,000-500,000 lire. In other words no account was taken of the 16-percent ceiling placed by the government itself on any increase in pay in any sector.

How was this possible? As IL MONDO has been able to show, it was Lelio Lagorio, minister of defense, who explained the news in a letter sent to Chief of Staff of the Defense Department General Vittorio Santini. In his letter he reported with great pleasure the approval of the measure by the Council of Ministers. "To finance the law", said Lagorio, "it will not be necessary to use the military budget". Otherwise there would have been a further increase in the 1982 military budget, which has already received a record increase: 35.2 percent with respect to the year that is about to end.

Lagorio made no secret to Santini of the difficulties he had to overcome to obtain approval for the provision granting extra remuneration to military personnel. "The Council of Ministers", he wrote, "reached a unanimous decision. President Spadolini exerted himself a great deal to overcome the last reservations of the Treasury Department, and many ministers supported the proposal."

The Minister also revealed the fact that the decision of the Council of Ministers was preceded by "action on the part of the undersecretary of defense to inform and gain the understanding of many ministers". Furthermore, Chief of State Sandro Pertini "made his opinion and his encouragement known, and this was very valuable." The President of the Senate, Amintore Fanfani, also gave a "favorable opinion" which was "extremely useful."

Thus this chorus of agreement was able to overcome the need to keep down government expenditures. But the increase in compensation to military personnel is bound to leave a trail of serious discontent in its wake among other groups of government employees, starting with civilian personnel in the Defense Department. The bonus was granted only to military personnel, regardless of the type of duties they perform; thus it will go to persons performing administrative duties too. Civilians who do similar work, on the other hand, will not get anything. The 60,000 civilians employed by the Defense Department will complain. So will all other state employees who, because of efforts to contain government expenditures, see their prospects for better pay receding.

But there is more. Within the Defense Department there is bad feeling because it was decided to grant an increase in pay instead of changing salaries, and according to the first reactions, this decision smacks of patronage.

So the government will have to respond to these points and to those which will be raised by the Federation of Governmental Employees and by the Confederate Secretaries of the CGIL, the CISL [International Confederation of Free Trade Unions] and the UIL [Italian Union of Labor], who have asked for meetings for clarification. Clarification will also have to be forthcoming from Parliament, which must pass on the measure (to make it law) to provide this compensation to military personnel.

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MILITARY

ITALY

DISPUTES, DISCONTENT IN ARMED FORCES

Milan EUROPEO in Italian 28 Dec 81 pp 13-15

[Article by Stefano Silvestri: "Ah, if I were not a soldier!" concludes in interview with Baracetti, leading Communist deputy on the Defense Commission]

[Text] "We are opposed to the slavery and colonialism which has arisen in our land, in Friuli, making it impossible for us to be free people and free men. We ask this question: Isn't it true that young people--Yes, young people not in uniform, eminent colonels and generals--go around the streets smashing up our cars, spreading drugs all over the place...". At this point the hall in the school for carabinieri officials resounded with shouts: "Shut up!", "You didn't talk like that during the earthquake: the soldiers were useful then, and how!". Cornelia Puppini, regional counselor of Friuli-Venezia Giulia, unleashed another storm in the already taut relations between the armed forces and the civilian population.

The fact is that Lelio Lagorio, minister of defense, decided to try an experiment: improve relations between politicians at all levels and the armed forces. But the experiment has led to more headaches than anything positive, and there are people in the armed forces who are thinking with nostalgia about the good old days. And of course among politicians there are those who have ended up looking back with nostalgia on the DC's leadership of the Defense Department: not just that of Giulio Andreotti, but even that of Attilio Ruffini, usually unanimously considered our most inconsistent and weakest former Minister of Defense.

The occasion on which Cornelia Puppini was letting off steam was a conference on military service, and in fact Friuli, together with Trentino and Veneto, contains more than half of the territories used in Italy for military exercises and target practice. But the conference did not convince other regions to take a larger share. The armed forces themselves, on the other hand, sent their own mini-torpedo against the idea of a redistribution of the armed forces from the northeast to the rest of the peninsula: shortly before the conference they published a study by Col Gualtiero Corsini which contended that this type of "regionalization" would cost about 1,500 billion lire.

Equal and opposing resistance was apparent later at another conference organized in the same building of the school in Via Aurelia in Rome: that of those newly elected to the Coir [intermediate representation councils]--alternates of trade union representatives. The statements of Corporal Renato Balduzzi and Underlieutenant Pio Bonomo

soon took on tones of j'accuse: "deaf and blind" orders, repression of liberal candidacies, bureaucratic impediments, obsolete structures, the food is bad, the sleeping accommodations are worse, the pay is too low (not even the 13 month!), etc.

At the end of the conference, Lagorio said all this was a sign of political vitality, but he must have realized that there is a lot of work to do before the newly elected bodies can really function.

Here, too, the top of the military hierarchy counterattacked, denouncing the inadequacy of appropriations and obsolete structures: more than half of the country's 500 military barracks were built before the 1930's, and some were built in the 19th century. Only 50 new barracks have been built since the war. These structures are inadequate for controlling soldiers and even for giving them decent living quarters, to say nothing of rehabilitating soldiers who take drugs--and drug addiction in the armed forces has been increasing at an incredible rate (in 1980 there was an annual increase of 200 percent).

All these signs were contained, in condensed form, in the harsh speech made by General Vittore Santini, chief of staff of the Defense Department, at the CASD [Center for Advanced Defense Studies] at the Salviati Palace in Rome. How could Santini make such a speech without Lagorio opposing it? Basically, because Santini's denunciations are only the tip of an iceberg which simply must be dealt with now.

Giovanni Spadolini himself--who severely rebuked the General, reaffirming the continuity and identity between civilian and military society--admits in private that this problem of the armed forces has deep roots, difficult ones, which are therefore cause for serious concern, even more so than one would be led to believe by the Santini episode alone.

The fact is that Parliament always reacts with the same intolerance. Santini speaks of a "widespread sense of frustration", of "persecution of the armed forces in certain circles," and warns that the consequences of all of this "should not be underestimated." But Parliament thinks about a defense budget of 10.149 billion for 1982, a billion more than in 1981. Can the armed forces possibly be blind to the financial sacrifice this budget represents?

So Lagorio has to keep on mediating a sort of race between opposing fronts. And the facts, although they do not prove Parliament wrong, indicate that the armed forces are not to blame either, because despite spectacular increases in the military budget in the last 2 years, Italy continues to devote less to defense than it did in the 1960's, and it has one of the lowest military budgets, percent-wise, in Europe.

In most divisions, our armed forces are less than 50 percent operationally efficient because they lack the necessary means. The modernization plan which was supposed to be completed by 1985 has been put off to 1990, and many people expect it to be postponed again. There are plenty of data about discontent among the men. The navy alone loses about 200 technical officers of low rank per year, from electricians to electro-mechanics, drivers, radio telegraph operators, programmers, etc. Everyone is aware of the exodus of pilots from the military air force (from 2600 to 1500 in 13 years). Less well known, but more serious, is the exodus of specialized personnel--mainly low ranking officers--from all three branches of the armed forces.

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On the other hand, these skilled technicians get net salaries which, including everything, go from less than 500,000 lire per month to about 750,000, when they have acquired a certain seniority in service. And they certainly do not have the same working hours as their civilian counterparts.

Officers are better paid (but a colonel gets just a little more than a million lire, and that at the peak of his career). And they have to relocate 15-20 times, moving, house-hunting, searching for new friends, for new schools for their children, etc. A colonel in the army was talking to us recently about his growing "proletarianization" due to the fact that the more often you move, the more often you are pushed out into the periphery because you can't pay for or find decent housing in the center of town. The inevitable result of this is that there is no correlation between professional ability, hierarchical position, and the actual "social role" of officers.

Relations with the civilian authorities are traumatic; an example of this was the Belice earthquake. Many members of the armed forces tersely refused to comment on what they saw: the inefficiency, the bureaucratic slowness, the stupidity, the corruption.

The members of the armed forces feel superior, in fact. Their schools are still highly selective and competitive, unlike those for civilians. At the military academy of Modena, about 160-170 students are chosen out of 1,600 applicants; after two years they then gain admission to the school of military applications.

Thus a schism is created between the civilian population and the armed forces. In some countries of the third world (and even in Europe, in Poland), this greater efficiency on the part of the members of the armed forces leads to coups d'etat. In Italy, the members of the armed forces themselves are the first to be concerned. An illuminating example is the analysis made by one of our Alpine officials, Army Chief of Staff Col Carlo Jean, who talks about the military profession oscillating "between restoration and trade union inclinations."

Jean states that what it boils down to is "a perception of a gap between theory and practice, between professional ideals and the reality of professional behavior. The former exalt ideal values; the latter subordinate these values to expediency and encourage careerism, pacifism, inertia, and bureaucratisation".

Two camps are born of this tension: that of the restorers and that of the trade unionists. The former would like to restore the heroic image of the ideal warrior and feel that they are "smothered" by the P2, by political deviations, by the sub-government. They become easy prey to right-wing groups and coups d'etatism, and exalt the separation of the military and the civilians sectors. The latter are equally dangerous, however, because they view the armed forces as a large modern firm and themselves as managers or skilled workers, and end up by losing the political and institutional feeling of their mission; they quickly become the defenders of a corporate sector which is open to all sorts of political and economic compromise.

Naturally these two camps are not so clearly distinct. General Santini's speech contains echoes of the restoration cult, just as the speeches of his predecessor, Admiral Giovanni Torrisi, had echoes of the trade union and efficiency cult. In both cases these tones are moderated, fortunately, by many other factors. Lagorio himself spoke of his ministry as a firm "which produces defense."

The minister seems to be trying to highlight a brand of professionalism which should be remunerated better, on the one hand (already more than half of the budget goes to salaries, and allocations for infrastructures are being increased) and which should be more solid and credible culturally. It is no accident that he would like to transform the CASD into a real military institute for strategic studies, raising our military science at least to the level of that attained in the rest of Europe.

But he must reckon with years of backwardness which have caused politicians to turn a deaf ear to the armed forces (they are used to treating armed forces as a sub-government) and to the degeneration of military personnel. As Col Jean quite rightly points out, "you can't accomplish anything with embittered and frustrated personnel".

Interview with Arnaldo Baracetti: "Call for New Citizen-soldier"

In Montecitorio, both friends and adversaries call him "the Friulian tank": he is Arnaldo Baracetti, 50 years old, leading Communist deputy on the Defense Commission. He gets up so early he enters the House every day by a side door because the main door doesn't open until 8 am.

[Question] You in the PCI were the first to be alarmed by General Santini's speech. And yet for a long time, even before Lagorio came to the Defense Department, you have been receptive to the demands of the military. What's wrong now?

[Answer] Of course we were the first to be concerned, just as we were the most pleased by the subsequent "clarification" given by the president of the Council, Giovanni Spadolini, in his speech in Livorno. We were alarmed because Santini spoke calmly of a "southern front," as did Lagorio, although as far as I know this matter has not been decided by the government or discussed by Parliament. All this just means that the Americans are behind it, that they want to turn us into a guard dog policing the Arab countries in the Mediterranean, since the Soviet threat cannot be considered consistent in the present circumstances (well-known military experts say so).

[Question] But we cannot forget the matter of the frustration of military personnel.

[Answer] This is another cause for great concern. Frustration, a feeling of being shunted out to the sidelines, an identity crisis among military personnel...we know that these phenomena exist, and we are working to eliminate them. But the way out is not the one indicated by Santini and Lagorio. There is a law on the new principles of military discipline; that is the beginning of the end of the separation of the armed forces and civilian society. But what has been done, or better left undone, by the Ministry of Defense and the military hierarchy to create a new personality for the citizen soldier?

Suffice it to note the fact that in January the House must deal with serious limitations on the applications of that law. But General Santini said nothing of this.

[Question] With military budgets constantly growing, why all these complaints from the top?

[Answer] Two things should be said here. First: it is said that we are at the line of the Piave as far as our economy goes, so don't people have the right to distrust

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the armed forces when they hear that they are spending more on weapons, and the military has tickets and other cuts in social expenses? Second: why aren't we getting anywhere with these laws to improve the life of soldiers (housing, promotions, the draft, etc.)?

[Question] The military hierarchy was also tainted by the P2 affair, the moral issue...

[Answer] There is undoubtedly a moral issue involved. It's not just a question of saying "that's enough" corruption; There is also a lack of consistency in our public administration and in the armed forces in particular. Part of the hierarchy supports moderate and conservative positions which serve other objectives, for example obtaining the approval of the United States and Reagan. So we must urge the military authorities not to listen to the various siren songs they hear, one after another, from the top of the Ministry of Defense.

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