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CENTRAL INTELLIGENCE AGENCY

EEF CURRENT SITUATION IN ITALY

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**THE CURRENT SITUATION IN ITALY****SUMMARY**

Because of its position on the edge of the Soviet sphere, Italy is important in terms of US security. The present Italian Government, composed of centrist Christian Democrats and a few representatives of the moderate Left, is anti-Communist and Western-oriented. Mainly because of Vatican support and popular association with US aid, Premier De Gasperi's Christian Democratic Party stands out as the strongest opponent of Italian Communism. Certain members of the Moderate Left, however, are also attempting to form an electoral combination to combat the Communist-led *People's Bloc* in the spring elections. Rightist factions in Italy have no leader comparable to De Gaulle but are unanimous in their opposition to Communism and, therefore, find it expedient to support a Western orientation.

The present Government will continue without radical change until the national elections in April, the outcome of which will be influenced by the results of US interim aid and the prospect for the ERP. It appears that neither the Communist-led bloc nor the Christian Democrats will gain a clear-cut majority and that the moderate Left will probably do poorly. As a result, the rightist parties will hold the balance of power.

Having failed to win dominance through the elections, the Communists are expected to launch a campaign of general strikes, or even to attempt armed insurrection should the Kremlin find such extreme measures necessary.

In the event of a Communist uprising, the Italian Government's armed forces would be capable of maintaining internal security, provided: (1) the current reorganization had achieved an integrated defense system; (2) additional modern equipment had been secured; and (3) the Communists had not received appreciable outside aid. The armed forces are incapable of offensive and could fight only a limited defensive war.

The Communists are believed to possess the military capacity of gaining temporary control of North Italy. If they receive material assistance from Yugoslavia and/or France, the Government will require foreign aid to regain control of the area.

Although US interim aid totaling some 200 million dollars will provide food and fuel to prevent extreme hardship until 31 March 1948, most Italians are still enduring privations and are dissatisfied with their working and living conditions. The cessation of essential imports from abroad would lead to a politically explosive situation.

Current foreign policy is basically influenced by problems of economic rehabilitation. The country looks to the US for necessary economic aid and protection against Soviet and Yugoslav demands. Because Yugoslavia continues its attempts to gain complete control of the Free Territory of Trieste, the US and UK are determined to postpone appointment of a governor indefinitely.

Note: The information in this report is as of 26 January 1948, at which time the report was submitted to the member agencies of the Interdepartmental Advisory Council for coordination. The intelligence organizations of the Departments of State, Army, Navy, and Air Force have concurred in this report.

### THE CURRENT SITUATION IN ITALY

#### 1. IMPORTANCE OF ITALY.

It is of vital strategic importance to prevent Italy from falling under Communist control. Such a development would have demoralizing effect throughout Western Europe, the Mediterranean, and the Middle East. In particular, it would greatly facilitate Communist penetration in France, Spain, and North Africa. Militarily, the availability to the USSR of bases in Sicily and southern Italy would pose a direct threat to the security of communications through the Mediterranean. Italy, however, is of relatively little direct value to the United States. The present and prospective political, economic, and military weakness of the country is such as to render it a strategic liability rather than an asset, except insofar as its territory constitutes a potential base of operations.

Currently, the importance of Italy in terms of US security is in its position on the edge of the Soviet sphere and in the non-Communist and Western orientation of its Government. Furthermore, the successful implementation of the European Recovery Program (ERP) depends to some extent upon the effective participation of Italy's industries and surplus workers.

#### 2. POLITICAL SITUATION.

The present Government consists of a coalition of the centrist Christian Democrats (the majority party) and the moderate Left (the Republicans and the Saragat — right-wing — Socialists) plus a few independents. Because of its substantial parliamentary majority, the parliamentary position of the Government is secure until the April elections. Furthermore, its prestige has been relatively improved in recent weeks by evidence of US aid and interest in Italy's recovery and independence. The Government has also increased its prestige and its popular following by its firmness during the recent wave of strikes and agitation.

The Christian Democratic Party, led by Premier Alcide De Gasperi, stands out as the principal opponent of the strong leftist bloc. Its political assets are essentially the following: its possession of necessary US friendship and of promises of aid for Italy's recovery, its calm and firm insistence on law and order against Communist violence, its centrist position, and its support by the Church. Furthermore, in recent months the Party through Premier Le Gasperi has cooperated with progressive elements in inaugurating several essential economic reforms and in granting concessions to workers. The Party, however, suffers from the onus of responsibility for a huge government deficit and failure to close the gap between wages and the cost of living despite some progress in its anti-inflationary program. Its prospects in the national elections are good, mainly because of Church support and the popular association of the Party with US aid.

The leftist block is led by the Communists and includes the Nenni (left-wing) Socialists, the Labor Democrats, and remnants of the Action Party. Their combined popular strength is believed approximately equal to that of the Christian Democrats. The

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Communists are using the same political device so successful in other countries, namely the People's Front—recently called the Popular Democratic Front for Liberty, Peace, and Work—to gather all “the forces of democracy” in the campaign against “the forces of reaction.” To this end they have also organized a strong “labor-management” movement among industrial and agricultural workers, and a “League of Communes,” an association of towns and villages which have Communist or Socialist Mayors and Councilmen. The Communists are energetically promoting the expansion of women's and youths' organizations.

Between the two major opponents are the Saragat (right-wing) Socialists, and the Republicans. These two left-of-center parties, which joined the Government in mid-December, have not been in a position to assert themselves or impress the public either with a specific attractive program or with direct tangible results of their governmental participation. At present, both parties have proposed to join in a “Democratic League” as a counter-weapon to the Communist “Popular Democratic Front.” Unless this Republican-Socialist bloc should attract many dissident elements from Left and Right, these moderate parties are expected to secure not more than 5 to 10% of the national vote.

To the right of the Christian Democrats is a recently formed “National Bloc” under the leadership of aged ex-Premier Nitti, who has temporarily, at least, brought together followers of his National Reconstruction Union, the Liberal Party, Giannini's much reduced following in the Common Man Front, and some splinter rightist groups. On the extreme right are two neo-Fascist organizations, the Italian Social Movement and the Nationalist Movement for Social Democracy. It is quite apparent that as yet no leader comparable to De Gaulle in France has appeared to unite the various rightist factions. All, however, are unanimous in their opposition to Communism and, therefore, find it expedient to support a Western orientation.

Despite the variety of political parties and views, the position of the present Government is secure at least until April because US interim aid has assured enough food and fuel to alleviate the hardships of the winter months. Basic adverse economic conditions and widespread unemployment continue to stimulate popular discontent which the Government can allay only by holding out the hope of the ERP.

### 3. ECONOMIC SITUATION.

The Italian economy, normally dependent upon imports, currently requires substantial imports of foodstuffs, fuel, and certain raw materials from the US in order to maintain minimum food rations and enable production to attain a higher level of recovery. US interim aid totaling about 200 million dollars will provide food and fuel to prevent extreme hardship until 31 March 1948, but the Government may be confronted with the politically disastrous necessity of reducing bread rations before the forthcoming elections.

In recent months the Italian Government has taken several steps to put the Italian economy on a sounder basis. Tight restrictions have been placed upon bank credit; exchange controls have been improved for the marshaling and allocation of

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foreign exchange, and the exchange rate of the lira has been adjusted to realistic levels. Considerable success has been achieved, through tight credit controls, in checking rising prices, particularly of raw material and semiprocessed goods prices, and the cost-of-living rise has been slowed. Although the anti-inflationary measures have caused some increase in business failures, this result undoubtedly is more than offset by the benefits of the program.

The strikes and demonstrations of November and December 1947, while disruptive, were not of sufficient duration to set back appreciably industrial production which, during 1947, increased approximately 35% over that of 1946. Concessions to strikers and unemployed, however, are placing an increased burden on the budget which is still running a substantial deficit.

Most Italians are still enduring severe privations and are dissatisfied with their working and living conditions. More than a million workers are completely without work and many others are only partly employed. Lack of adequate wheat supplies have already caused the suspension of the pasta ration and the substitution of rice.

The general economic situation, therefore, is still conducive to agitation and unrest. The cessation of essential imports from abroad, particularly from the US, would lead to a politically explosive situation highly favorable to the Communist cause, especially with national elections impending.

4. MILITARY SITUATION.

The Italian armed forces are limited by treaty to an over-all strength of 300,000 men. For economic reasons, their actual strength is only 286,000, including a recent increase in the Carabinieri (internal security troops) from 65,000 to 75,000. The armed forces are loyal to the Government and generally anti-Communist in sentiment. Training is fundamentally good, and morale is improving.

The Italian Government, fearful of a Communist uprising, has recently increased the size of the Pubblica Sicurezza (security police), which is expected to reach 80,000 by the end of February 1948. The Government has also appealed to the US for additional equipment to supplement obsolescent and insufficient material, and negotiations are in progress. Provided Italy is able to secure additional equipment and to achieve an integrated defense system (organization of which is now in progress), and provided the Communists do not receive appreciable aid, the armed forces are capable of maintaining internal security. They are incapable of waging offensive war. If attacked by a relatively well armed power such as Yugoslavia, for example, Italy could at best fight a brief delaying action.

5. FOREIGN POLICY.

Italy's post-war policy is basically influenced by its immediate problems of economic rehabilitation. It looks primarily to the US for aid in regaining its prewar international position and resisting any future Yugoslav and Soviet demands and threats. When reparations payments begin in 1949, Italian economy will be brought inevitably into closer relationship with the USSR. More immediately the USSR can use part of its present wheat surplus to bolster the position of the Italian Communists before the

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national elections this spring. Hence, eventual Eastern orientation through economic necessity cannot be entirely discounted.

Italy has already resumed diplomatic relations with all the major and many of the minor powers of the world and has concluded commercial and/or emigration agreements with numerous countries. With active US sponsorship, Italy has applied for membership in the UN. Italy is particularly desirous of working legally for a revision of "punitive" peace terms.

As illustrations of Italy's willingness to contribute to world cooperation: the new Italian Constitution contains a clause which permits limitations on the national sovereignty; Foreign Minister Sforza is an outstanding exponent of the idea of a United States of Europe; and Italy has already taken steps toward a Franco-Italian customs union looking ultimately to a European economic union.

**6. PROBABLE DEVELOPMENTS.**

The present Government will continue without radical change until the national elections in April.

The Communists and Nenni Socialists will strive, as they did during 1947, to discredit the Government and interfere with Italian economic recovery under the ERP. Hunger and inflation will continue to afford many opportunities for valid strikes. Such strikes, if concluded advantageously for the workers, will enhance the prestige of the Communist leaders of the Italian General Confederation of Labor. These strikes will also financially embarrass the Italian Government whose budget needs all available revenue. The Communists will continue to devote considerable money and all their organizational energies to activities and maneuvers which may be concomitantly preparations for a general strike, for a possible insurrection, or for a campaign to improve Communist prospects in the national elections.

The outcome of these elections will be influenced by the results of US interim aid and the prospects for successful implementation of the proposed European Recovery Program. Favorable developments in this connection would operate to the decided advantage of the present Government, led by the Christian Democratic Party.

Despite the granting of US aid and other evidence of US support, the leftist bloc has not lost strength and the Christian Democrats (and their allies) have not gained any considerable political following. Hence, it appears that neither will gain a clear-cut majority in the April elections; the leftist bloc and the Centrists will each probably receive approximately 30 to 40% of the vote. The balance of power will thus be held by the rightist parties with approximately 15 to 25%. Hence, the next Government would probably be headed by the Christian Democrats with rightist support. Because such a coalition would be bound together largely by common opposition to Communism, it would suffer from clashing policies and programs.

Following the failure of the Communists to win power at the elections and conceivably before the elections are held, the Communists are expected to launch a campaign of general strikes. Should the Kremlin decide an insurrection in Italy necessary

to the fulfillment of its primary objective—wrecking the ERP—an armed uprising might be ordered.

The Communists are believed to possess the military capacity of gaining temporary control of North Italy. If the Italian Communists receive material assistance from Yugoslavia and/or France, the Italian Government will require foreign aid to regain control of the area.

**7. SITUATION IN TRIESTE.**

Yugoslavia's efforts to gain complete control of the Free Territory of Trieste have not diminished in recent months, and consequently the area remains a potential source of Great Power conflict. Since the Yugoslav Army's unsuccessful attempt to penetrate the US-UK Zone on 15 September 1947, the Yugoslav-directed Communist Party in Trieste has continued its intensive campaign to undermine the authority of the Allied Military Government (AMG) and to lay the groundwork for Communist control of the area after the appointment of a governor by the Security Council.

The Communist effort has been directed primarily against Trieste's precarious economic condition. Trieste's economic recovery has been retarded by the general economic depression in Europe and by the reluctance of Italians and others to risk investment in Trieste business in view of the Territory's uncertain future. The Communists have exploited this situation through continuing pressure on labor to strike for higher wages, the purchase of business establishments in the city, and the diversion of traffic to the rival Yugoslav port of Fiume. AMG's ability to combat this Yugoslav pressure is dependent on its ability to finance an adequate public works program and to develop the city as a transit port. This in turn is dependent upon the continued willingness of the Italian Government to supply Trieste's currency needs and finance its balance-of-payments deficit. Although Italy is reluctant to assume this obligation, failure to do so would tend to undermine AMG's authority, make later UN control impossible, and assure eventual Yugoslav domination.

Politically, the Communists are actively preparing for the general elections that must be held after the appointment of a governor. In addition to attempting to make political capital of the economic depression, the Communists have conducted a violent and unrelenting propaganda campaign against the US and UK. Because the Communist Party in Trieste is now so openly associated with Yugoslavia, however, the pro-Italian non-Communists have strengthened their political organization, probably with some clandestine aid from within Italy, and are in a better position to combat the Communists in any future elections.

The Yugoslav Government, meanwhile, realizing that the presence of US-UK troops in Trieste not only thwarts its aims in that city, but acts as a strong stabilizing influence on Communist intentions in North Italy, is now pressing vigorously for early appointment of a governor by the Security Council. Although the US and UK are prepared if necessary to postpone appointment of a governor indefinitely, the USSR and Yugoslavia may agree to a US candidate in the hope that even a strong governor would not be as great a deterrent to Yugoslav designs on the Territory as continued US-UK military control.

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