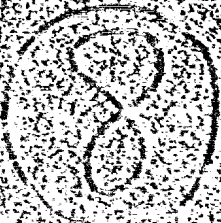


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CENTRAL INTELLIGENCE AGENCY

THE CURRENT SITUATION IN ITALY

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Copy No. 1**THE CURRENT SITUATION IN ITALY****1. *The Strategic 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 U. S. S. R. 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.

2. *The Economic Situation.*

Italy is normally dependent on imports for substantial amounts of foodstuffs, most of its industrial raw materials, and about 90 percent of its coal and petroleum. Ultimately, Italy can become self-sustaining only through a general European economic recovery which would permit the resumption of normal international trade. Meanwhile Italy can look only to the United States for the provision of imports imperatively necessary to prevent an impending economic (and political) collapse. For such aid to be effective, however, it is essential that the Italian Government adopt and implement a more realistic and vigorous economic program.

At present Italian agricultural and industrial production have leveled off at some 75 per cent of the prewar volume. Land transportation also has been restored to approximately the same relative level as industrial production. The merchant marine, normally an important source of foreign exchange, has been restored to about 67 per cent of its prewar tonnage. This measure of recovery has been possible, however, only by reason of very substantial financial and material aid from the United States. Given the necessary materials and competent economic direction, a further restoration of industrial production is possible. Without sustained importation, however, the existing production will collapse.

Despite the need for products which Italy might supply, no group of European countries is presently in a position to provide in exchange adequate amounts of the materials which Italy requires to sustain production or the dollar exchange required to obtain such materials elsewhere. Great Britain, for example, imports Italian fruits and vegetables, but cannot pay for them with either coal or dollars. The Italian Government's dollar resources are now exhausted. To maintain essential imports of wheat, coal, and other materials in short world supply, the Italian Government must call upon the United States for both dollar credits and favorable allocations.

Note: This paper has been coordinated with the intelligence agencies of the Department of State, Army, Navy and Air Forces.

Even at the present level of economic recovery, the great majority of the Italian people are enduring privations comparable to those experienced during the war. Some two million remain unemployed. Those employed are generally unable to satisfy their wants by reason of great inequalities of income distribution, the scarcity of goods, and the rampant inflation of prices. The Government has failed to curb either the inflation or the flourishing black market whereby those having the means are able to enjoy plenty in the midst of general want. It anticipates a budgetary deficit of 300 billion lire in 1947-48, despite an extraordinary capital levy and the abandonment of subsidies intended to hold down the price of bread.

This situation, already conducive to agitation and unrest, would be rendered intolerable by a cessation of essential imports. The ensuing unemployment and hunger would be politically explosive. Even if essential imports are assured, it will still be imperative that the Government take effective action to halt inflation, curb the black market, discourage hoarding, and husband dollar exchange.

3. *The Political Situation.*

The present Italian Government is essentially Christian Democratic, although it includes also certain independent moderates. It lacks working-class representation. It is generally supported by the Rightist parties in the Constituent Assembly, but has been severely criticized by the moderate as well as the extreme Left.

In the election of June 1946 the Christian Democratic Party received impressive popular support, winning a large plurality of seats in the Assembly, although not a majority. Its strength was derived from its middle-of-the road position, free of either Fascist or Marxist taint, the implicit support of the Catholic Church, and its evident ability to deal on favorable terms with the Allied authorities. Subsequently it lost public confidence through the ineffectiveness of its efforts to cope with acute economic dislocations and through its coalition with the Communists. Since its break with the Socialists and Communists the Party has regained prestige. Its leadership still does not inspire great confidence, but is nevertheless regarded by most non-Leftists as preferable to the alternatives. Its strengths are essentially the same as a year ago: its centrist position, the support of the Church, and above all the presumption that through it there is best hope of obtaining U. S. aid for Italy.

The principal opposition consists of the Communist Party and its satellite, the Nenni (left-wing) Socialists. Their combined popular strength is probably somewhat less than, but approximately comparable to, that of the Christian Democrats. After the 1946 election the Communists, by astute and aggressive tactics, gained greatly in prestige and influence at the expense of the Christian Democrats. Since their expulsion from the Government they have lost ground, essentially because of new hope of economic betterment through the European recovery program and of increasing realization that the Communists' primary loyalty is to the U. S. S. R. rather than to the Italian people. Recently the Communists have sought to exert pressure through their control of labor unions, but thus far this effort has failed in its effect for lack of sustained labor support.

Between the principal political antagonists are the Saragat (right-wing) Socialists, who withdrew from the Nenni-controlled Socialist Party rather than follow the Communist Party line. The admittance of this group to the Government would tend to

mitigate its Rightist orientation and to relieve it of the valid charge that it lacks any working-class representation.

The principal organized political force to the right of the Christian Democrats consists of two neo-Fascist groups, the Common Man Front and its more radical offshoot, the National Movement for Social Democracy. Although the aggregate strength of these groups has increased considerably during the past year, their effectiveness has recently been impaired by the indicated split. Both groups are anti-Communist and disposed to support a Western orientation.

Thus the existing Government is sustained less by public confidence than by the absence of any presently acceptable alternative. For the time being, hope of eventual betterment weighs more heavily in the scales than does existing dissatisfaction. Should hope dwindle and despair increase, the balance would shift.

4. *The Military Situation.*

The U. S. and British forces remaining in Italy must be withdrawn by mid-December.

The Italian armed forces are limited by treaty to an over-all strength of 300,000 men. For economic reasons, their actual strength has been maintained at no more than 270,000. They are loyal to the Government, and generally anti-Communist in sentiment. Their training is generally good, and their morale has recently improved. Their weapons and equipment, however, are generally obsolescent, poorly maintained, and insufficient in quantity, particularly with respect to heavy weapons and aircraft. Without the support of an armaments industry, they are dependent upon U. S. and British surplus stocks.

The Italian armed forces are incapable of major military operations. They are considered to be generally capable of maintaining internal order, but would be hard pressed if required simultaneously to defend the frontier and to suppress internal insurrection.

5. *Probable Developments.*

The stability of the existing Government depends primarily on its ability to obtain adequate economic support from the United States. Given interim aid sufficient to avert acute distress during the winter, it should be able to maintain its position until the general elections in April.

The Communists and Nenni Socialists will continue their vigorous effort to intensify existing difficulties and dissatisfactions with the purpose of thoroughly discrediting the existing Government or compelling it to readmit them to membership. If economic collapse should occur in default of adequate interim aid, an extremist government would probably accede to power. There is at present no sound basis for prediction as to whether this government would be Communist or Rightist, but the current trend appears to be away from the Communists and favorable to the Right.

Assuming that the present Government survives the winter, the outcome of the April elections will depend not only on the results of interim aid, but also on the prospects for the success of the European recovery program. Favorable developments in this regard would operate to the decided advantage of the Government. Adverse developments and the consequent disillusionment would enhance the possibility of a Communist electoral victory.

Armed insurrection is a continuing Communist capability; the threat of insurrection will be exploited to the full to intimidate both the Government and the electorate. It is probable, however, that the Communists' overriding mission is to preserve and develop their organization for use in creating and exploiting a "revolutionary situation." Insurrection, while there remained a fair chance of accession to power by legal or quasi-legal means, or in circumstances which gave no promise of early decisive success, would be prejudicial to this mission and is therefore unlikely.

If the Communists were to resort to force, their effort would be general throughout Italy, with a view to taking over the entire country. Their capabilities are greatest in the north, however, where they played a major role in partisan resistance during the war and still maintain an effective partisan organization. There, too, the proximity of Yugoslavia affords them some prospect of support and would facilitate the maintenance of guerrilla operations similar to those in northern Greece. The opportunity is by no means so favorable as that in Greece, however, for the frontier is much narrower in proportion to the depth of the area concerned and the interior is for the most part open country, tending to prevent the consolidation of guerrilla control.

The Italian armed forces could probably cope successfully with any Communist insurrection which lacked general popular support, provided that the threat of Yugoslav intervention on a major scale were effectively neutralized.

6. *The Situation in Trieste.*

Order has been restored in the Free Territory of Trieste, but the underlying tensions remain. Awkward as the existing situation may be, with a joint U.S.-British occupation of the northern part of the Territory, including the city, and a unilateral Yugoslav occupation of the remainder, greater political ferment must be expected on the appointment of a United Nations governor, when elections must be held and the struggle of Italian and Yugoslav citizens for control will find expression in open political conflict.

Trieste can prosper only if it can regain its former position as the principal Adriatic port for the Danube Basin. It is probable, however, that insofar as this commerce is Communist controlled, it will be diverted to Fiume. At present traffic through Trieste is negligible and unemployment is high. The clash of nationalisms within the Territory is likely to be aggravated by the consequences of economic stagnation.

Yugoslavia is determined upon the ultimate acquisition of Trieste, and to this end will exert every effort to keep the area in constant turmoil, to prevent its economic recovery, and generally to render ineffectual its international administration, looking toward the creation of a situation favorable for a Yugoslav-Communist assumption of *de facto* control.

Trieste retains a symbolic significance for Italians which causes them to regard its fate with great intensity of feeling. Although the Italian Government is likely to take a less aggressive part than that of Yugoslavia in the struggle for control of the city, the Italian people will regard the resistance of their compatriots to Yugoslav absorption with great sympathy and the Government will be compelled to act to defend Italian rights there.

Constant tension in Trieste will not only embitter Italo-Yugoslav relations, but will also tend to direct the resentment of patriotic Italians toward the Italian Communist Party.