

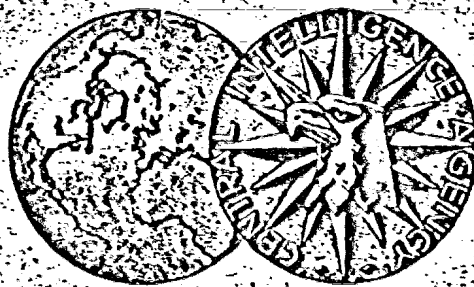
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MAJOR PROBLEMS OF ITALIAN GOVERNMENT POLICY



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MAJOR PROBLEMS OF ITALIAN GOVERNMENT POLICY

SUMMARY

Premier De Gasperi faces two fundamental problems: (1) to persuade the apprehensive and war-weary Italian public to support a definite alignment with the Western Powers and, (2) to present to the Italian people tangible economic benefits in order to strengthen popular confidence in the government.

The major determining factor in Italian foreign policy will be developments in the East-West struggle. To this struggle, Italy's principal problems of foreign policy are closely related: the question of political and military alliance, disposition of the prewar colonies, return of Trieste, and modification of Peace Treaty restrictions upon Italian military capabilities. Italy will probably find it necessary to align itself definitely with the West, even though public opinion at present lags behind the government's willingness to take this step.

De Gasperi could inspire public confidence in his administration either by offering the Italian people an early improvement in their standard of living or at least by sponsoring a bold and comprehensive legislative program of economic reforms. Neither development seems probable. Despite the solid economic gains achieved in Italy through the ECA, no improvement in the popular standard of living is likely to become evident within the next six months. Moreover, the De Gasperi Government has failed so far to show any signs of having or of soon developing any program of long-range economic reform for Italy. A variety of industrial and agricultural problems remain unsolved.

In industry, the high production costs of Italian manufacturers hinder the development of foreign trade. Uneconomic industries are still subsidized by the State. Strikes and slowdowns, though unlikely to cripple Italian economic recovery, still impede it. Unemployment continues to be a major problem, and emigration, which might otherwise ease it, is greatly restricted by a variety of factors, particularly a lack of outlets. Taxation in Italy remains inequitable and inefficient. The economic plight of the Italian middle class is grievous and shows no prospect of relief. Italian agricultural yield, though increasing, is inadequate to restore the Italian diet to its prewar level without resort to disproportionate imports of food. Long-range agrarian improvements are still only prospective. In any constructive approach to these problems, De Gasperi will be hampered by the opposition of interested pressure groups.

Because of this limitation, and because of the inherent difficulties of the domestic problems, De Gasperi is unlikely to win public approval of his foreign policies on the basis of having created popular satisfaction over his approach to the general problem of domestic needs. On the contrary, unless adequate social and economic improve-

Note: This report has been concurred in by the intelligence organizations of the Departments of State, the Army, the Navy, and the Air Force. It is based on information available to CIA on 4 March 1949.

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ments through ECA aid and governmental action become apparent to the Italian public, a decisive part of the population is likely to shift its support from De Gasperi to the Left, particularly to the Communist Party. Although such a shift would have, except for withdrawal of moderate Socialists, no serious immediate effect upon the composition of the present government, the shift would probably result in a loss of current majority support for De Gasperi's Christian Democratic Party in the national elections of 1953.

MAJOR PROBLEMS OF ITALIAN GOVERNMENT POLICY

1. POSITION OF THE DE GASPERI GOVERNMENT.

The imminent threat of economic collapse and political chaos which overhung the De Gasperi Government at the beginning of 1948 had by the middle of the year been removed, permitting De Gasperi, still Premier, to turn from day-to-day crises to more fundamental questions of foreign and domestic policy.

The national elections of 18 April 1948 gave the Christian Democratic Party a majority of seats in the new Parliament and confirmed the right of that Party to be the dominant element in the Cabinet until the holding of new elections, scheduled for 1953. This base of Christian Democratic political strength was broadened by the continued Cabinet participation of the conservative Liberal Party and of the moderate-leftist Socialist Workers (PSLI) and Republican Parties.

Even before the April elections, the inflation that had been leading toward economic collapse and social upheaval was slowed down by the vigorous deflationary measures taken by Budget Minister (now President of the Republic) Einaudi in September 1947. Although this anti-inflationary program acted as a temporary brake on manufacturing, the level of industrial production has since resumed its upward course, and wages and prices have remained reasonably steady. A further stabilizing factor was the assurance that the US, through the European Recovery Program, would provide considerable materials and credits for the rehabilitation of the Italian economy and the gradual raising of the Italian standard of living, which even in the prewar period had been lower than that of most European countries.

Thus, by the summer of 1948, having been relieved of the critical threats to Italy's economic situation and his own political position, De Gasperi could turn his attention to the problem of guaranteeing the political and military security of Italy through alignment with other Western Powers. The Communists and left-wing Socialists, comprising one-third of Parliament, have offered bitter opposition on this issue, and have forced the government to approach the problem with caution. In addition, many moderate Socialists and the left wing of the Christian Democrats have argued for a clear-cut course of Italian neutrality.

De Gasperi realizes that he would obtain greater popular support for his foreign policies if he could achieve a conspicuous success in fulfilling domestic needs. He faces special difficulties, however, in obtaining the long-term measures of economic and social reform necessary to this success. The extreme Left will oppose whatever recommendations the government may make in this field. Moreover, difficulties inherent in attaining the promised and badly needed changes are aggravated by the reluctance of the Liberals and even many of the Premier's own party to support any far-reaching economic or social legislation. Despite these obstacles, De Gasperi realizes that failure to take positive action would make him vulnerable to criticism from the moderate Left as well as the far Left, would strengthen the Communists, and would

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handicap the success of the ERP, thereby hampering achievement of better living conditions and prolonged social stability in Italy.

2. FOREIGN POLICY PROBLEMS.

a. *The Western Alliance.*

The central problem of the Italian Government in its conduct of foreign affairs is to win the support of the Italian people for close political and military alignment with the West. The Premier has been vigorously supported by Foreign Minister Sforza and Defense Minister Facciardi in preparing the ground for an alliance, but there continues to be strong popular opposition to surrender of neutrality and to any military commitment which would expose Italy to reprisals. Consequently, the Communists, and the Socialists of the far Left have had some success in their campaign to discredit the Government by denouncing as war-mongering anything that indicates official sympathy for a western military pact. Even left-wing members of the Premier's own party have protested his favorable disposition toward military pacts, although the left-wing party leaders have indicated that for the sake of party discipline they would follow the majority. The moderate Socialists have also shown their disapproval of military alliances. Their leader, Saragat, has, however, recently conceded that a military pact "for defense" would not be inconsistent with Socialist principles. Saragat's moderate Socialist following continues divided on the question of whether or not their Cabinet representative should oppose Italian military commitments.

At the present time, most Italians would prefer to participate in a politico-economic European federation. The projected Council of Europe appears to be a step toward such a federation, and Italy has agreed to participate in the London discussions (scheduled for late March) regarding organization of the Council. Italian representatives in any European union, whatever its form, would find their main support in two otherwise conflicting groups: the Vatican, which favors a European federation as a means to halt the spread of Communism, and the moderate Socialists, who see such a federation as the framework for a socialist Europe which could develop into a "third force" between the US and the USSR. Though the Italians are impelled toward a western alliance by natural inclination and some government pressure, they fear its potentialities for involving them in war.

b. *Relations with the Western Powers.*

Though Italy's relations with the UK have been poor since World War II, those with the US and France are presently excellent.

The traditionally close ties between the US and Italy are strengthened by Italy's hope for economic rehabilitation through US aid. In addition, Italians are currently grateful to the US for forcing delay in the UN's consideration of the colonial question, which they believed was at the point of being settled in a manner unfavorable to Italian interests. Italians look to the US, the Latin American countries, and France to champion Italy's interests when the matter is taken up at the April 1949 session of the UN.

The favorable attitude already expressed by France toward the return to Italy of its former colonies has been one of the factors in improving relations between the two countries. Another is the promise of the French Government to improve the working conditions of Italian emigrant labor in France. A Franco-Italian customs union, long-discussed, now seems somewhat closer to realization. Despite a previous French Assembly adverse vote, the French Government may still consider a readjustment in Italy's favor of the Italo-French boundary provided by the Peace Treaty. Furthermore, many Italians welcome, as a recognition of equality, various evidences that France (along with the US) favors Italian participation in a western alliance.

In contrast to Italy's improved relations with the US and France, its attitude toward the UK has become embittered by British claims to trusteeship over Cyrenaica and British opposition to the return to Italy of most of the other former Italian colonies. Some Italians have also resented the earlier British opposition to Italian entry into an Atlantic Pact, although this resentment will probably be diminished by the decision of the Western Powers to invite Italy to participate therein.

c. Colonies.

Ultimate disposition of the colonies will have some bearing on the willingness of the Italian people to support fully a western military pact. Italy, basing its claims on the assertion that the colonies were acquired before the advent of Fascism, would like to have them returned, partly for reasons of prestige, partly because of fancied economic gain, and partly because of their supposed usefulness as an outlet for the surplus population. Wide sections of the press and various nationalist pressure groups assiduously keep colonial aspirations alive. Though any disposition short of full return to Italian control would bring an adverse Italian reaction, most Italians are probably reconciled to eventual UK control of Cyrenaica. On the other hand, the mere report that the US and UK favored awarding most of Eritrea to Ethiopia elicited much popular bitterness as well as a threat from Foreign Minister Sforza that he and other cabinet members would resign if such a decision were carried out. Assuming loss of Cyrenaica, Italy still wishes to participate in administration of the other colonies, despite the fact that the Government will have difficulty in securing the funds to administer them.

As regards Tripolitania, Italy will be dissatisfied with any disposition other than outright return. Several other proposed solutions, however, would probably be accepted, though with varying degrees of reluctance, by the Italian public. One, reflecting a desperate effort of the Italian Government to provide itself with a compromise solution which would not too greatly sacrifice its prestige or colonial desires, and advanced by certain Italian experts on colonial problems, envisages the formation of a semi-independent Arab state of Tripolitania which would have close economic and political ties with Italy. Another proposal, favored by certain US colonial experts, would be the provision to Italy of an emigration outlet in Tripolitania through US trusteeship. Italians might, in fact, welcome US participation in the government of North Africa as providing additional security for the Mediterranean area.

d. The Peace Treaty.

The government's case for revision of the military clauses of the Peace Treaty is based primarily on Italy's inability to defend its borders for more than a few weeks, in view of which fact many Italians feel that participation in the Western security arrangements as presently constituted would provide their country with little actual additional protection and would leave it at the mercy of an antagonized USSR.

e. Italy's Relations with the USSR.

Because of this desire not to antagonize the Soviet Union and because of genuine economic needs, Italy's relations with the USSR and the satellites continue correct, and trade between Italy and Eastern Europe is being developed. Recently concluded trade and reparations agreements between Italy and the USSR should result in economic benefits to Italy, thereby increasing the domestic prestige of the Italian Government. The government can impress the population with the fact that the contemplated trade amounts to almost ten percent of Italy's present foreign commerce. Furthermore, whether or not the ambitious goals of the Italo-Soviet agreements are reached, the Italian Government can point to these agreements as proof that, contrary to the contention of the Communists, it is not a tool of the US.

The withdrawal by the USSR of its earlier support of Italian colonial claims, although causing an immediately unfavorable popular reaction, has not greatly affected official relations between the two countries. Because Italian hopes have been centered on western support of Italy's claims, Italian bitterness over any unfavorable solution of the colonial or Trieste question would be directed more toward the West than toward the East. Soviet obstruction of Italy's entrance into the UN, however, is a sore point because of the extreme importance which Italy, for reasons of national pride, attaches to regaining diplomatic parity with other nations. Omission from the Italo-Soviet trade agreements of the word "friendship," indicates that, whatever their complementary economic needs, mutual trust between the two governments remains at a low level.

f. Italy and the Soviet Satellites.

Similarly, Italy's relations with Eastern Europe are based largely on economic rather than political affinities. Current negotiations with Yugoslavia involve discussion of Italian reparations to Yugoslavia, compensation for Italian properties confiscated by the Yugoslav state, and conclusion of a fishing treaty; these discussions may result in expanded trade relations between the two countries. The Yugoslavs have made other friendly gestures, such as the return of Italian civilians who had been captured by the Yugoslav forces during World War II. In recent months, therefore, tension between Italy and Yugoslavia has considerably lessened.

The Free Territory of Trieste, however, continues to be a source of friction between the two countries. Italians are counting heavily on the earlier recommendation by the Western Powers that Trieste be returned, and undoubtedly assume that the return of that territory would follow upon an Italian participation in a western bloc.

g. Probable Developments in Foreign Policy.

The De Gasperi Government will take a definite position on the side of the West, both for reasons of national security and because western support is indispensable to a favorable settlement of Italy's major problems in foreign policy. The timing of Italy's actual commitment to the western bloc depends on various fluid factors, including international tension. This tension, it appears, has won De Gasperi the backing of his Cabinet for an alliance of Italy with the West, but protracted parliamentary discussion would follow any proposal by the Premier that Italy participate in the Atlantic Pact at this time.

3. DOMESTIC PROBLEMS.

Because De Gasperi was elected on the understanding that economic improvement would result from US aid, the government will obviously lose popular support and be vulnerable to Communist attack if the public fails to see material proof of the promised prosperity. Actually, the ECA has already helped to bring about a substantial measure of economic recovery, but the effects have not yet appeared in material form to the common people, whose standard of living is still below the prewar level. Beyond that level, the program itself does not envisage an improvement in the Italian standard of living before 1953. Thus, the government will have only limited possibilities of retaining its public support through proof of immediate economic gains. In lieu of actual gains, however, the government might be able to inspire some confidence in its domestic policies by proposing and attempting to carry out a legislative program that would be clearly designed both to complement the ERP and to satisfy some of the long-standing demands of most Italians for economic and social reform. Without such a program the ECA cannot in any case attain ultimate success nor can any marked improvement in the standard of living be achieved.

A review of some of the salient problems of economic recovery in Italy will illustrate the difficulties of attaining any marked improvement in the standard of living within the life of the European Recovery Program and the even greater difficulties of achieving any perceptible change within the next six months.

a. Agricultural Needs.

In agriculture, the immediate problem is to secure maximum yields of food, and thus, without disproportionate imports, restore the Italian diet to at least its prewar (1938) level. Despite the progress made during 1948, even this modest goal will not be achieved with the 1949 harvest. Fertilizers, insecticides, and farm machinery are still insufficiently utilized, despite the greater quantity of these supplies now available. In some areas, an increase in yield may ultimately depend on the enacting and implementing of legislation to reform land holdings, as required (though without specification of time) by the Constitution of 27 December 1947. Such long-range reforms, however, would not affect present agricultural production, and the uncertainty which surrounds these reforms has restrained many large landowners from investment in improved agricultural techniques which might otherwise increase this production.

Progress toward agrarian reform will be slowed through the opposition of vested interests and the need of educating tenant farmers in methods of operating small holdings. Nevertheless, large sections of the rural population will demand a program of agrarian reform as the price of their confidence in the government, even before implementation of such a program is possible.

c. Industrial Production.

In industry, during 1948, the prewar (1938) level of production was attained, and long-term potentialities in this field are good. The high cost of production, however, presently handicaps Italian exporters in the development of foreign markets. Contributing factors include obsolescent industrial equipment, obligatory retention of unneeded workers (especially in the mechanical industries), and a variety of burdensome taxes. ERP aid will permit modernization of some manufacturing plants, but none of these high cost factors lends itself to quick solution.

Increase in industrial output is further hampered by the presence of certain uneconomic industries which were developed during the Fascist regime in order to make Italy economically self-sufficient and prepared for war. These industries, mostly in the mechanical field, are still subsidized by the state. Although the government recognizes the ultimate advantage of abandoning them, it is reluctant to do so because they provide a livelihood to many workers for whom there is now no substitute employment.

d. Strikes and Slowdowns.

Industrial production has been somewhat hampered by Communist-inspired strikes and slowdowns, which are likely to continue. The Communist-dominated Confederation of Labor (CGIL) has recently favored the use of the slowdown, rather than the strike, in the hope of winning a wider support among organized labor and lessening public antagonism to labor demonstrations. Within the CGIL, the opposition of a Republican and moderate Socialist minority is diminishing the effectiveness of the slowdown. However, in strikes called on economic issues, such as wages and the dismissal of workers, the CGIL continues to attract non-Communist support, even at times the backing of the Catholic-led Free Confederation of Workers (LCGIL). Nevertheless, the government will probably be able, by devoting a minimum of attention to the basic issues involved, to keep such strikes and slowdowns from crippling economic recovery.

e. Unemployment and Emigration.

Unemployment perennially handicaps the solution of all other problems of the Italian economy. The population is increasing by approximately 500,000 a year, and each year about one-quarter million more people enter the labor market. Unemployment, having reached a total of almost 2.5 million in early 1948, is now about 2 million, and shows no tendency toward further reduction except through emigration. Indeed, even fulfillment of the government's goal of providing a million additional jobs in Italy during the life of ERP (1948-52) would represent only the estimated increase in the employable population for that period. Emigration, which might otherwise pro-

vide a practicable means of reducing the number of the unemployed, is presently restricted by a variety of factors, including shortage of trans-Atlantic shipping and the reluctance of many countries to accept immigrants. During 1949, permanent emigration is not likely to exceed that of 1948, about 90,000. Thus, approximately a million and a half unemployed in 1952 are in prospect.

f. The Tax System.

The Italian Government faces a further problem in its system of taxation. Despite tax evasion by Italian manufacturers, their production costs are considerably increased by social security charges and by the "turnover tax" which they meet at every stage of industrial output. As a result, the high cost of Italian-manufactured goods impedes the development of Italy's export trade. Moreover, the large part of national revenue derived from indirect taxation falls disproportionately upon the poorer classes. The government recognizes the need of revising the entire tax structure, with emphasis on a progressively graduated income tax, and is conducting studies toward this end. A thorough overhauling of the presently inefficient administrative system of assessment and collection of taxes would be a prerequisite to any such revision. Because the level of civic morality in Italy is notoriously low, however, the government will have great difficulty in achieving these reforms, and their implementation will probably be delayed. The existing forms of taxation in Italy will, therefore, probably continue to burden certain fields of business enterprise and to demoralize low-income workers. These groups, however, could be reassured by a clear-cut government program of tax reform even before legislation and final implementation produced positive results.

g. The Plight of the Middle Class.

In the rapid postwar upward spiraling of prices and wages, the white-collar workers and the middle class in general have lost ground, and no substantial relief of their painful situation is in the offing. The government budget cannot bear the additional outlay which would be required to restore the prewar real incomes of public employees. People dependent in whole or in part upon income from rents cannot expect any appreciable increase in rentals, the one phase of the Italian price structure which has been successfully controlled. Similarly, alleviation of the economic plight of other fixed income groups and the unemployed could be achieved only at the risk of creating new inflationary pressures.

h. Elements Obstructive to Reform.

Even a steady movement toward economic expansion would not be reflected immediately in betterment of the lot of most Italians. Moreover, the movement toward economic expansion will be slowed here and there by the special pressures of interested groups. Some industrialists will seek to employ ECA-financed raw materials in the manufacture of high-profit items regardless of their contribution to recovery. The Communists, on the other hand, will continue their agitation to have ECA counterpart funds devoted to temporary relief projects which can provide no basic, sustained advantage to the Italian economy. Besides their efforts to encourage squandering of ECA aid, the Communists, who control a third of Parliament, will promote lengthy debate in order to delay legislative action essential to a recovery program.

1. Probable Developments in Domestic Policy.

The inherent difficulties of resolving the problems of economic expansion in Italy and the obstacles interposed thereto by interested sectors of the population will continue to block attainment of tangible improvement in the lives of the people. Within the next six or eight months, at least, improvement of this sort will not be impressive. Despite these limitations on what it can offer in the immediate future, the government could inspire public confidence by sponsoring a bold, comprehensive legislative program. To date, however, it has failed to give indications either of having or of soon developing such a program. Consequently, the government cannot look forward to winning popular approval of its foreign policies on the basis of having created popular satisfaction over its approach to the problem of domestic needs.

There remains, moreover, the danger that by 1953 an important segment of the Italian public, if adequate social and economic improvements through ECA aid and governmental action are not forthcoming, will shift its support back to the Left, particularly to the dynamic Communist Party. This reaction would not immediately affect to a serious degree the composition of the present government, but it would probably lead to the withdrawal therefrom of the moderate Socialists. The national elections of 1953, however, would probably result in a decisive loss of popular support for De Gasperi's Christian Democrats.*

* No mention was made in section 3 above, "Domestic Problems," of a domestic threat to the De Gasperi Government, namely the Communist paramilitary organization (approximately 20,000 armed men), primarily because this organization has not to date become an operative or disruptive factor affecting government policy on either of the two fundamental problems treated in this paper.