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1 June 1981

MEMORANDUM FOR: Director of Central Intelligence

VIA : Director, National Foreign Assessment Center  
Director, Political Analysis

FROM :   
Office of Political Analysis

SUBJECT : Italy's "P-2" Masonic Lodge Scandal--Its Likely Implications

The scandal currently dominating Italian politics revolves around allegations that a large number of key government, military, business, academic and press figures are involved with a Masonic lodge--known as "Propaganda Due" or "P-2"--which is portrayed as a "secret power center" counterposed to Italy's political and economic institutions.

The Charges

- Charges that "P-2" members were linked to a variety of illegal activities, including bank fraud, sparked several investigations of the lodge's Grand Master which have turned up membership lists purporting to show that close to 1000 important Italians are associated with "P-2."
- No evidence has been made public tying any high-ranking official to questionable activities attributed to the lodge, but public opinion--spurred by the press--has seized on "P-2" secrecy as circumstantial evidence of a conspiracy that is at the heart of Italy's many problems.

The Impact

- Most of the officials linked to the lodge have denied being members, but the shadow of suspicion convinced one cabinet member to resign and prompted the suspension of Rome's security service chiefs.

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- Moreover, the government was forced to resign when the pivotal Socialists rejected Christian Democratic Prime Minister Forlani's offer to remove the implicated ministers to minimize the political fallout from the scandal.
- Forlani is attempting to reconstitute his four party coalition but probably will fail because his Christian Democrats refuse to bow to Socialist demands to lead a new government as the price for their support.
- Forlani is likely to continue in a caretaker capacity through important local elections later this month when the Socialists are expected to take their case to the voter.
- If the local elections fail to break the deadlock, national elections probably would be scheduled for the fall as the only remaining way to resolve the impasse.

#### The Implications

- The continued inability of the Christian Democrats and Socialists to come to terms could convince one or the other, as a last resort, to offer the Communists a role in the governing process, probably short of cabinet seats, in return for supporting its efforts to put together a government.
- In the interim, the Communists are likely to continue to offer, at least tacitly, their support to the Socialists in the hope of driving a wedge between them and their former governing partners.
- In the short term, we might expect the repercussions of the Masonic scandal to include heightened domestic violence, as Italy's terrorists seek to play on the general confusion.
- The absence of a governing majority will set back efforts to stabilize the economy, as key deflationary policies remain on the drawing board.
- A public announcement of the site for the ground launched cruise missiles which are a part of NATO's INF program probably will be postponed, but necessary technical studies will continue without interruption.
- Assuming he were still the caretaker, Forlani would adopt a low profile at the Ottawa Summit and use the unsettled domestic situation as an excuse for avoiding firm commitments.

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The Outlook

- It is not clear whether the Forlani government will be the major casualty of the affair. There may be further forced resignations, but the scandal is not likely by itself over the long term to disrupt Italy's democratic institutions or ruling elite.
- In the short run, however, the scandal has damaged the Christian Democratic-Socialist governing alliance. Unless these parties can agree on the terms of their relationship in any future government, Italy almost certainly will be in for a succession of governments more likely than even the largely ineffectual Forlani government to postpone decisions on important domestic and foreign policy issues.

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