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27 December 1977

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MEMORANDUM

Italy: Economic Impact of a Larger  
Communist Role

From an economic perspective, the most likely form of greater Communist involvement in the Italian government -- i.e., participation in the parliamentary majority -- probably would not create a situation more unstable than the present governing formula. Voting with the majority in parliament is not likely to gain the Party much greater say in economic decisionmaking. Under the terms of the "programmatic accord" established last July, the PCI already is consulted on, and holds veto power over, all major legislation in the fields of economics and public order. For the Party, the main impact of entering the parliamentary majority is probably symbolic. Such a step in Italy traditionally signals that a party is qualified to enter the cabinet and would be interpreted by PCI rank-and-file as a promise of greater governmental concessions later on. As long as they retained firm control of the economic ministries and the Bank of Italy, the Christian Democrats would remain dominant in economic policy formulation.

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The international financial community is unlikely to react adversely to PCI participation in the governing majority, a key factor since short-term indebtedness to foreign banks amounts to about \$7 billion. Bankers would continue to set limits on their exposure based on the surety of their investment and relative rates of return. These in turn depend on the effectiveness of government policies in improving the trade accounts and defending the lira, as well as governmental attitudes toward foreign property rights. The government's present policies probably would not be undermined by an increase in the PCI role. The commitment of the PCI to austerity is strong, and admission of the Party to the parliamentary majority would enhance the ability of PCI leaders to sell austerity to the Party base. Moreover, the Communists have repeatedly denied that they intend to expropriate foreign investment or declare a moratorium on debt repayments. Many businessmen would prefer to see the PCI being gradually admitted to the governing process rather than risk the chaos that could result should the Party stop cooperating with the Andreotti government and exert its influence with labor in a negative manner.

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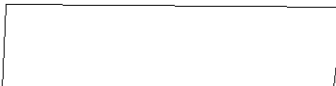


Even if the PCI were to win a greater governmental role than we think likely -- namely, formal coalition status with the Christian Democrats -- we would not expect an abrupt break with past economic policies. Although the Party has a definite plan of medium-term objectives, it would be flexible in implementation, ready to modify ideological preferences in order to gain political advantage. (See the attached discussion of these objectives.) The Party would use the promise of future reform to justify continued collaboration with democratic parties to its membership.

Greater PCI participation in the government should not represent an imminent threat to EC policies or institutions. The Party supports EC integration, seeing a united Europe as an important counterbalance to both US and Soviet influence. While Party economists have advocated protectionist trade policies in the past, more recent Party documents reject this approach. The PCI demands a radical reform of the EC's Common Agricultural Policy for the benefit of Italian agriculture but would be unlikely to press this issue if doing so would disrupt the European Community.

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Articles

ITALY: COMMUNISTS LAY OUT ECONOMIC OBJECTIVES

The Italian Communist Party (PCI), hoping to improve its credentials as a potential governing party, recently issued its medium-term economic plan after months of intense intraparty debate. A recent decline in the Christian Democrats' resistance to PCI participation in government gives the document particular significance.

Secretary General Berlinguer had ordered Communist theoreticians to come up with a statement of objectives that would pacify party members restless over PCI support of the current austerity program. The party leaders see no short-run alternative to austerity and advance the plan as a follow-on program that would bring about stable economic growth and social progress. The plan offers outsiders the best opportunity to assess PCI policy positions since the 1976 election campaign. Perhaps its most striking features are a reemphasis on domestic economic planning and a shift away from protectionist measures earlier favored by party economists.

The plan sets out PCI "maximum objectives" for a period of about five years. PCI leaders argue that the medium-term focus is realistic, given Italy's economic situation; this leaves vague their long-term objectives for the "grand transformation" of Italian society. They apparently hope this approach will answer critics who demand that the party disavow allegiance to Soviet style plans for control of the society.

Reaction to the plan has been mixed. The relatively nondoctrinaire tone of the document probably has contributed to a growing impression in Italy that the Communists are moving away from the classic Marxist-Leninist model. Still, many Christian Democrats have been critical. Deputy Secretary Galloni, for example, has criticized the plan for inherent "duplicity" and has predicted that its implementation would mean the end of the free market in Italy.

What the Plan Says

A voluminous and turgid document, the medium-term plan is divided into two parts. The first, shorter section defines the political arrangements and cultural attitudes the PCI considers prerequisite to extracting Italy from its economic

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difficulties. In particular, the plan urges an end to the longstanding "discrimination against the left" and admission of all parties to the governing process. The second section, which contains the core of the program, is a litany of more or less specific proposals. It advances the party's ideas for economic planning, public finance, agriculture, labor and industrial policies, and relations with the Third World and the European Community.

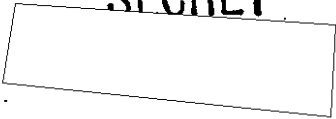
The Communists tout comprehensive economic planning as the fundamental solution to Italy's economic problems and belittle Rome's past efforts at indicative planning. Yet their program expresses the objective of "upgrading" and "rechanneling" the activities of the free market rather than supplanting it. The Communists would substitute their own social priorities for what they regard as the chaotic patterns of the market. Their proposed system of planning would control large-scale industry more closely than medium- and small-scale industry or agriculture. The Communists say they would develop and impose economic plans through the legislative mechanism, with the regional authorities playing a major role. Unlike their French counterparts, they do not call for outright nationalization of industry. In some undefined way, the bureaucracy would use "levers of direct and indirect public intervention" to ensure that economic units follow plan directives. The Communists foresee worker surveillance playing an important role in policing business behavior.

*Labor and industrial policies* are intertwined. The PCI favors government intervention to assure that investment promotes both import substitution and job growth. Its program recommends that investment be directed into labor-intensive service activities rather than into the capital-intensive manufacturing sector. To foster job creation in the backward South, the Communists propose a freeze on job levels in cities to the north. They recommend a shift in favor of take-home pay at the expense of fringe benefits and social insurance. The PCI would enhance labor mobility through special assistance to people between jobs. The program includes closer supervision of state corporations to promote efficient operation and tight control of multinationals. More broadly, the Communists advocate government review of pricing decisions.

The medium-term plan advocates greater investment in *agriculture*, reactivation of fallow land, and replacement of small family farming units with "cooperative" arrangements. Communist economists hope to raise farm production and reduce Italy's large trade deficits in food, which they regard as a drag on industrial growth. According to the program, the Common Agricultural Policy of the European Community has exposed Italian agriculture to damaging competition from other EC members and is the main obstacle to Italian self-sufficiency in food. The PCI demands "a profound change in the mechanism on which EC policy rests."

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Regarding *foreign economic policy*, the PCI plan flatly rules out protectionism. The Communists express concern that integration of the European Community has slowed and attribute this to the different balance-of-payments performances of the member states. As a remedy, they suggest joint management of EC members' foreign exchange reserves. The PCI proposes that the European Community develop greater cooperation and exchange with Third World and Communist countries. In North-South relations, the Communists advocate commodity stabilization pacts, debt relief for the poorest nations, and trade concessions to LDCs.

In the area of *public finance*, the medium-term plan strikes a rather conservative note, stressing measures aimed at reducing budget deficits. It states that deficit financing should be restricted to capital projects. The PCI recommends greater effort against tax evasion, higher and more progressive taxes on income and wealth, and curbs on public spending. To hold down outlays, the Communists would abolish certain agencies that have been prime patronage vehicles for the Christian Democrats and put a freeze on the hiring of administrators. The PCI would lower payroll taxes for social insurance, making up the revenue loss with heavier direct taxation. They would reduce the present large deficits in the social insurance system by scaling down health benefits, imposing some charges for medical services, and tightening up the policing of claims for disability pensions.

#### Evaluation

The most controversial part of the medium-term plan—and the one that prompted the attack by the Deputy Secretary of the Christian Democrats—is the section on economic planning. The call for governmental control of the economy is broader and more strident in the new plan than in earlier PCI pronouncements. The Communists would use economic planning to divert resources away from activities shown by the market to be more efficient and into activities to which the PCI assigns higher priority. To this end, the Communists seek greater government influence over pricing, employment decisions, credit allocation, and, most especially, investment.

In treating labor and industrial policy, the plan follows earlier PCI documents in steering clear of the delicate issue of wage reform, especially modification of the wage indexation system or any admission that inflation and unemployment might be exacerbated by rapid wage increases. The plan merely exhorts workers to be more productive and offers a vague promise of voluntary wage restraint once the grand transformation has been achieved.

PCI agricultural policy is misguided in its focus on self-sufficiency in food. In a country with such poor agriculture, self-sufficiency can be achieved only through a

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wasteful propping up of the farm sector. The Communists fail to recognize that one of the main benefits of Italian membership in the European Community has been the elimination of small, inefficient farms, which has freed labor for more productive employment. Basically, the PCI has carried forward its past opposition to the Common Agricultural Policy.

The medium-term plan seems to ignore potential gains from trade. The Communists not only urge autarky in agriculture but also press for expansion of import substitution industries to the exclusion of export industries. Yet they plump for EC integration, apparently believing that a stronger, more unified Europe would counterbalance both US and Soviet influence. The suggestion that EC members pool their foreign exchange reserves is impractical at best, so long as the different countries show wide variation in their payments balances. PCI rejection of general protectionist measures is a sharp turnabout; after the lira crisis of early 1976, the Communists strongly endorsed import quotas and exchange controls. Improvement in Italy's balance of payments or a more realistic assessment of its vulnerability in any trade war may have prompted the change.

PCI recommendations for public finance are largely directed towards the central government, where the Christian Democrats have been dominant. Paradoxically, the greatest progress toward reduction of deficit spending has been at this level. As in earlier PCI statements, little is said about the escalating deficit spending of regional and municipal governments, many of which are Communist controlled. Communist suggestions for refinancing and tightening up the social security and health systems would be inadequate to make the systems solvent.

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