MEMORANDUM OF CONVERSATION:

PARTICIPANTS:

President Ford
Arnaldo Forlani, Minister of Foreign Affairs of Italy
Amb. Roberto Gaja, Italian Ambassador to the U.S.
Raimondo Manzini, Secretary General of the Italian Foreign Ministry
Brent Scowcroft, Assistant to the President for National Security Affairs
Charles W. Robinson, Acting Secretary of State
Neil Seidenman, [Interpreter].

DATE AND TIME: Wednesday, September 29, 1976
10:30 a.m.

PLACE: The Oval Office
The White House

Forlani: Will you be campaigning during your debate?

The President: I will probably go out Monday, do a couple of minor things on Tuesday, and prepare on Wednesday. Then on Thursday I have a fund-raising dinner.

[Callaghan call comes in].

I am very sorry. I was about to say I am delighted to have you here and make your acquaintance. I think we have no big bilateral problems. I would like to hear how you see the situation in your country and any other items of interest to you.

Forlani: Thank you very much for seeing me. I know your many commitments, especially at this time and I greatly appreciate your kindness.

On the Italian political situation, my government is fulfilling its international commitments, including NATO, despite all the press insinuation to the contrary. The fact that it hasn't been possible to set up a coalition government and that we are a minority government doesn't...
affect the integrity of our government. Among the many abstainers is the Communist party. We have made clear this different Communist attitude makes no difference to our policy and relations with the world. If some factor should arise on the international scene, my government would not hesitate to precipitate a domestic crisis if needed to deal with the situation.

The first enactment of the new government was to add almost $3 billion to the defense budget. That is one of the most significant actions taken in recent years in support of NATO. These bills provide for modernization of the Air Force and Army and are in addition to earlier bills by previous governments for the Navy and Marines. What I think is of interest is that the restructuring of our Army is getting strong parliamentary support.

The President: Including the Communists?

Forlani: They are not condemning it. They have a cautious, but responsible attitude. I believe it is interesting that the Communists are adopting a flexible stand concerning NATO. Personally, I am not sure the Italian Communists would like to see the present international equilibrium upset. On the other hand, when I was Minister of Defense I could see this attitude on the part of other Communists, especially Yugoslavia, and to some extent, Romania. The wish they seem to have is that even though they are linked through the Warsaw Pact they don't want the equilibrium upset.

Of course one cannot trust what seems to be. We must be cautious, but we do need to observe these trends. Even if within NATO we sometimes have differences -- like between Greece and Turkey or with France -- we see the same differences exist within the Communist bloc; it is not the monolith it used to be.

As for our complex internal situation, our comment is to NATO and to overcome our economic difficulties. I think we can overcome our present difficulties. But to do so we need the support of our European allies and most especially of the United States. The Italian people will also perceive this.

The President: I am very pleased to hear this and especially your report on your armed forces. For years we have had declining investment in our military. I turned that around. [He described what he has done.] We intend to be a firm and strong partner. Our public's attitude has
changed. The pressures for unilateral reduction of forces in Europe are lessening, though there are some who want to pull out everywhere. It is very helpful to be able to show that we are not the only ones increasing our contribution. We will be strong in the alliance, and must be, because there is no diminution of the threat, even though we see some signs of cracks in the bloc.

I am encouraged to hear your report on the Italian economic scene. As I recall, at Puerto Rico, there was less optimism.

Forlani: There has been a good business recovery in production and improvement in the financial situation -- in the balance of payments -- since Puerto Rico. Yesterday the Cabinet adopted a severe program to fight inflation -- to increase production and control expenditures and internal consumption. Of course, to control public expenditures and internal consumption, it is necessary to hold wages down, and that takes cooperation with the unions.

The President: Do you have wage and price controls?

Forlani: We have a cost of living escalator clause. It is a policy we inherited from the past -- when prices go up, wages must rise. For the current government this is the way to make it or break it. Either we get things under control or we'll have another crisis.

In yesterday's program, we reduced the size of the deposit fund, starting with 5% and going to abolition in 6 months.

The President: I certainly applaud the decisions taken by the Cabinet. I know it was difficult politically. It strikes a responsive chord here and we will be very supportive.

Forlani: This for us is decisive. Alone we cannot do it. We must have solidarity with Europe and especially the United States. For the Mediterranean area -- Spain, France, Portugal, etc. -- it is essential to keep the democratic forces alive and have our economic recovery. Only in this way can we keep the Communists under control. The gain in Communist strength in Italy has been directly related to the economic difficulties, the rise in oil prices and prices in general. For 30 years
we have warded off the Communists, but we were always having economic expansion, but when this crisis came up we almost lost it, but things went better than we had foreseen. As you know, the party in power always has the advantage when there is economic progress.

Your growing success in your campaign is due not only to you, but what your Administration has achieved. I have spoken to many Italian friends in New York who see Democrats who will vote for you because you have brought about economic recovery. I hope we can do the same in Italy.

The President: I think we have done well and I think our economic progress will continue at a steady pace if we don't succumb to the temptation to make quick fixes. I agree with your comments on the political implications of economic developments.

[He described the current economic situation].

Forlani: I followed your debate with Carter. As a whole, while there are differences between you, I wish we had all our parties within the same political range.

The President: Please give the Prime Minister my warm regards.

Forlani: President Leone sends his very warm regards.

The President: Please give him and Mrs. Leone my very best wishes. We are very appreciative of your bicentennial gift of La Scala. It was a magnanimous gesture.

Forlani: May I say with extreme frankness and sincerity, for me and the government, we are following your campaign and wish you all the best in the election and for your family.

May I express thanks for your help also in the earthquake.

One last thing I should mention. After your elections, we must think about Malta. We will have Mintoff with us for a long time now and we should consider how to deal with him.
F. With your le company during your winter.
I will go up to you. We will go up to you. We will go up to you.
We will go up to you. We will go up to you.

I am sorry. I am sorry. I am sorry. I am sorry.

I am sorry. I am sorry. I am sorry. I am sorry.

I am sorry. I am sorry. I am sorry. I am sorry.
The first movement of a new plot can't add much to the budget. That is due to a most try against the momentous state in support of what. There's the opportunity for transportation of a new Army in addition to harder bills. I'm going to get the Army to get their support.

And a Coast?

They must understand it. They have a situation but not the attitude. I don't think it matters that they are anything. It's just a matter of what. Personally, I just want to let Coast do what he sees. I promise until equilibrium except for every hand, when I was behind. I could see this attitude in just about any Coast. I'm just saying that in peace. It seems to have been that even the Army think there. Wears the plot out, just don't want equilibrium except. I promise not what seems to be. We must be cautious but we're not to obsess them. Even if we think we sometimes have to. If it's not or if, we are in charge by what else.
When as first this, it wit's no whit
It need be.
But in every day to think of it,
our comfort is to hope for one of our own clp. But think we can not some our present clp. But to be the need a support of our Fox clp. The St. pulpit will also serve the poor my pleasure to have the help your support again arrived from Europe
and here not declining winter in our will I know not what more (absent what to endure). We endure to be a frame a strong spirit. Our public affairs are changed. The progress of undoubted adherents of peace in Europe are alarming, the time are gone who must to talk well and agreeable. It is my solemn to be able to show that we are not only the reasoning race but also. We will be strong and alone must be known, than is in a denomination of a trust. in the
are the times; regions of earth in a
and
summarize to have your word
on a St. some. In call at
Penn's once were there optimi
Thu, Nov 22, 1945

Dear Mr. Smith,

I have a good feeling about

the proposal we presented to a financial

time (4/4) and P.R. yesterday. I think

adoption of a three-year proposal to lift inflation

improve productivity, control expenditures, reduce

taxes on capital gains, stimulate investment, and

consume it will be a victory. I hold strong

dram because there's a very high urgency.

Do you have any specific issues?

Yes, fees will raise labor costs.

We feel it would be more effective to

work with unions. We have a clear

strategy for this. It is a strong case

we have built from past actions. We plan

to engage new unions. For example,

this is a must for our future. Either

way, we get strong union protection and

another union.

For yesterday's report, we discussed a size

elegant fund, starting at 5%.

I am confident in its success.

I was impressed by the savings.

It strikes me that we all

are very successful.

This is for us to decide. Also, we cannot

make it. We must have solidarity

with P.R. and the C.S.
For a wedding card - Srs, Lt., etc. is essential to have clear and concise
messages that can be easily read. Only in this way can all hoped emotions
come to full expression. This gain in heart strength in Jt. has been
obviously related to a decrease of all
in evil prices - prices in good. If
in some house would not - Crost, but
we were already looking in Japan, but
when this crisis occurs we also look
at it, but they won't better than we feel
preservation. Do you have a party and
on how long have advantage about
12 am. President Ford. Your pressing
needs in your campaign in the
United States - but also your
enormous interest in our abilities. I know
speakers to say it public in NY
letho our leaves who will not in
you. As you have been brought
your own example. I have always do
a summer in Italy.

P.S. I think we have been well - I think we
are every progress well understood at a
very good if we don't remember too
quick faster. I agree with your comments
on a pet. Expansion, je c'est eval. (Prinimal - serious a ran sit)
We think our exam has been problematic.

I feel almost empty without you. Besides, while things are up at your farm, I wish we had some justice in our current system.

Please give me a reply as soon as possible.

I'm very happy with my work.

Please give this the best wishes. Your letter is a very apparent sign of your concern and loyalty. It means a lot to me.

I'm very happy with your encouragement and support in following your campaign with us.

(Thanks for your support)

Our last thing I should mention. After your death, we must think about them. We will have to try to get back to our old times without you.