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DEPARTMENT OF STATE

Washington, D.C. 20520

JUN 11 1976

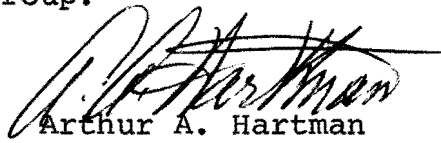
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EXDIS

MEMORANDUM TO THE ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS

Subject: NSSM 242: US Policy Toward
Italy

In accordance with your directive of
May 4, 1975, the Interdepartmental Group for
Europe has prepared the attached review of US
policy toward Italy for consideration by the
NSC Senior Review Group.


Arthur A. Hartman
Assistant Secretary for
European Affairs

Attachment:

Review of US Policy.



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E.O. 12958, SEC. 3.5

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BY HR, NADA, DATE 11/18/05

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EXDIS

MR # 08-112-#8

NSSM 242

NSC Letter 9/4/12

By del NARA Date 12/12/12

EXECUTIVE SUMMARY

While not today considered the most likely outcome of Italy's June 20-21 general elections, Communist accession to a governing role could occur

-- in a left front with the Socialists;

-- with the Christian Democrats and perhaps the Socialists in the "Historic Compromise"; or

-- in a national unity coalition comprising all parties except the far right.

The reaction of non-Communist Italians and political parties to Communist entry into government would be profound, even though it would have resulted from elections and might be limited to token participation. Such reaction would vary with the degree of Communist dominance -- greatest in the case of a PCI-PSI alliance, less in a national coalition of many parties, least of all in the case of a nonorganic association with the government on certain programs.

As for the economy, capital markets will be jittery following the elections -- the more jittery the greater the gains posted by the Communists. An acceleration in capital flight is almost a certainty. The severity of the outflow will depend upon the speed with which a new government can be formed, and the shape the new government takes and the policies it adopts. The longer the period of uncertainty and the greater the control given the Communists, the larger the drain on capital will be and, hence, the likelier the shift to more radical economic policies will become. An "Historic Compromise" would be far less destabilizing than a left front.

In Western Europe, notwithstanding dissatisfaction with Christian Democratic leadership and despite problems with Communist parties in France and West Germany, there is a disposition to avoid isolating Italy economically or politically. This would be strengthened by the probability that even significant PCI participation in the government would not immediately change Italy's Western European orientation, including its participation in NATO and the EC.

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The NATO Alliance can ill afford a transatlantic rift over the Italian situation. The Allies will do everything possible to avoid having to choose between Washington and Rome. The very importance attached to the American engagement in NATO, together with the economic means at the disposal of the US, will sharpen pressures on Europeans to see their policies reconciled with those of their core alliance partner.

Should the PCI take on a governmental role, European responses would be conditioned by its nature. A government also including Christian Democrats and Socialists would be regarded as less threatening than a PCI/PSI coalition. In the first case, the overall weight of the DC and its presence in key ministries would provide both initial safeguards and continuity. The leftist alternative would be certain to give rise to far greater apprehension. Europeans would be skeptical that Socialists could provide any effective counterpoise to the PCI. EC members could be expected to be more circumspect, less forthcoming, and more demanding both in bilateral relations with the Communist-dominated government and in the Community context.

In terms of US interests, there would be a negative effect on the viability and effectiveness of NATO and the EC and on our relations with it, and our overall dialogue and cooperation with Western Europe would become more difficult. To the extent the EC -- and our ties to it -- were weakened, we would be compelled to put more weight on our bilateral relations with Western European governments and on restricted groupings excluding Italy. The picture of a PCI working effectively in an Italian government would enhance the possibility of a PCF-PS victory in the French parliamentary elections and could increase the domestic respectability of the Spanish Communist Party.

PCI participation would impact on US security first, because of the overwhelming importance of Italian geography for the defense of NATO's Southern Flank and, secondly, because of the broad consequences for NATO if Italy should ultimately withdraw or freeze its participation, or if the Italian situation should decay into violence.

Although we cannot exclude that the PCI would want to move in some manner against NATO and US facilities in the

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near term, it seems more likely that the PCI would be very cautious, recognizing that many in Italy and elsewhere will see any moves against defense arrangements as an early litmus test of PCI responsibility. Similarly, the PCI may try to change Italy's status in NATO, perhaps formally withdrawing from the integrated military structure as France and Greece have done. But, weighing likely domestic and Allied reactions, the PCI could well judge it more prudent in the near term to let Italy's status in the Alliance (as well as its continuing participation in Allied activities) remain unchanged.

The problem the US and our Allies will face would be the fact, not the degree, of Communist entry into the Italian government. Our reaction, however, will be guided by the form in which the problem presents itself -- a left front, the "Historic Compromise", or a grand coalition -- and we have therefore considered a spectrum of options:

I) support and co-optation; II) acquiescence; III) conditional neutrality; IV) opposition; and V) intervention. The first would attempt to neutralize the Communist problem and protect our Italian assets by absorbing the Communists into the Western camp. The second seeks to protect our position and Western unity by giving the Communists no cause to challenge them, while withholding our political blessing. The third option, conditional neutrality, avoids the risks of a positive or negative stance by placing the burden on the PCI to prove by its actions what its real intentions and sympathies are. The fourth and fifth choices start from the premise that it is in our interest from the outset to cause the PCI to fail and, hopefully, end the Communist experiment in Italy.

Some erosion of Western cohesion and purpose will almost certainly be the product of Communist success. Whether the erosion would be worse if we tolerated and adapted to the new situation or if we attempted to fight it, is the key question. A great deal hinges on the way in which the Communists got in and the resultant attitudes of other Italians, our allies, and the American public.

Accordingly, if we are faced with a multi-party government which includes the PCI and DC as cabinet ministers and lacks any significant opposition, we favor

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Option III, conditional neutrality. We recognize that Option III may allow the PCI to maneuver us into Option II by passing every test we can pose. On balance, however, it affords the greatest flexibility, both for ourselves and for the Christian Democrats. It includes a retreat to Option IV or a transition to Option II if either should become in our best interests. Option III affords the maximum chance that the PCI would be unable to cope with the dislocations caused by its arrival in power or would react ideologically to them. In either case, it could be defeated politically, bearing the onus for Italy's crises. Option III further limits the damage to our strategic position that we might self-inflict by Options IV and V. Most of all, Option III is the most credible response to an ambiguous situation in Italy.

If we are confronted with a left front which leaves broad and determined opposition within Italy to a PCI government, State and CIA favor Option IV, recognizing that Option III may be preferable to start, if we cannot line up European support. In the unlikely event that a left front is accepted in Italy as a legitimate outcome of the elections, we favor Option III as an initial response, pending recourse to Option IV, if subsequent events called for it.

DOD believes we should start with Option III whatever government is formed in Italy until and unless the PCI gives sufficient cause to move against them.

Option V should be seriously considered only in the most extreme circumstances, such as actual or anticipated civil war, and even then only if we can obtain sufficient support among our allies and at home.

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NSSM 242: US POLICY TOWARD ITALY

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E.O. 13526 (as amended) SEC 3.3

MR# 08-112 #8

NSC Letter 9/4/12

By dal NARA Date 12/12/12

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I. THE PROBLEM

Italy's national elections to be held June 20-21 raise for the first time since 1948 the possibility of Communist accession to a governing role in a major NATO country. We do not believe such a success to be the most likely post-election outcome. A more likely result will find the Christian Democrats retaining the initiative to form a government with the Socialists, who in turn will press at least for some form of indirect Communist association in the parliamentary majority. Such an ambiguous, inconclusive outcome lies outside the purview of this NSSM but would pose substantial problems of drawing the line on Communist participation.

Should the Italian Communist Party (PCI) be thrust by the elections into a direct governmental role, we estimate that its accession could take place:

- in a left coalition with the Socialists;
- in the "Historic Compromise" with the Christian Democrats and possibly the Socialists; and
- in a government of national unity comprising all parties except the far right.

US Interests

The objectives of US policies and actions toward Italy would be:

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-- to maintain the Western and democratic outlook and traditions of Italy and all our European friends and allies, including their willingness to uphold and defend the values and liberties we hold in common;

-- to ensure the integrity, cohesion, and effectiveness of the Atlantic Alliance (including US domestic support for it);

-- to retain US military installations and access crucial to our strategic position in Europe, the Mediterranean, the Middle East, and North Africa;

-- to preserve the economic stability and cohesion of Western Europe, its institutions and its vital trade and investment relationship with the US;

-- to show the Italian people the benefits of Italy's membership in the Western community.

Our pursuit of these objectives should take into account the equally direct interests and similar objectives of our European allies. It would therefore be desirable to develop with them policies and actions in which their role is prominent, if not primary. Such policies will also need to be easily perceptible to and supportable by the American people.

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II. THE COMMUNISTS (PCI) ATTAIN POWER IN ITALY

There are two minimum requirements for PCI accession to power in Italy at the national level: (1) a substantial improvement over its performance in the 1972 national elections (e.g., a consolidation of its June 15 regional gains) and (2) agreement by either the Christian Democrats or Socialists or both to join the PCI in a coalition or to grant it an indirect but formal role in policymaking. Communist participation in Italian national government would most likely take one of the following forms:

A. The Left Alliance

A left alliance would be made up of the Socialists (PSI) and the PCI, and would perhaps include dissident DC elements, but with the majority of the DC in opposition. In the PCI view, this combination would be a longer-term objective than any of the other possible formulations. The PCI would probably have to win a clear plurality of the popular vote and together with the PSI command a majority of the Parliament. As a result of an electoral mandate, the PCI might take the lead in forming a new government. The Socialists and perhaps some defectors from other parties including renegade DC types might be enticed to take the plunge by the offer of the most prestigious cabinet posts --

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including the premiership. Whether or not the resulting coalition were called a government of national unity or whether it turned out to be a Communist-Socialist popular front, the PCI would be the dominant element.

B. The "Historic Compromise"

A general shift leftward on June 20, with some further loss by the DC from 1972 and further gain by the PCI could set the stage for the "Historic Compromise." It would be basically a DC-PCI alliance, with a sharing of cabinet portfolios. PCI leader Berlinguer, who originated the proposal, says the Socialists would also be welcome. Some observers think that an arrangement between the PCI and the DC is the most likely means by which the PCI would directly enter the government. Berlinguer obviously favors it, seeing it as a relatively less sharp break with the past and a more viable regime than one opposed by the DC. It would be difficult, however, for the DC to accept Communist government participation in the immediate term given the DC's vigorous opposition to it in the current electoral campaign.

C. The Grand Coalition

This is a PCI proposal for all constitutional parties (minus the neo-fascist MSI) to participate in a government of national emergency lasting 2-3 years to deal

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with Italy's post-election outcome if there is only a marginal shift among the principal Italian political forces. From the PCI viewpoint, such a combination would have the near-term objective of accustoming the Italian electorate to PCI participation in government. Notwithstanding the legitimizing fig leaf of multiple party participation, however, it would still be a form of the "Historic Compromise". Officially, the DC opposes a direct PCI role in government. Nonetheless, should the PCI do extremely well in the election, some DC leaders, wishing to remain in power, would seriously consider it. Such a formula would make it easier for the DC to rationalize a sudden reversal of its opposition to the PCI.



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III. IMPACT ON ITALY

The reaction of non-Communist Italians and political parties to Communist entry into government would be profound, even though it would have resulted from elections and might be limited to token participation. Such reaction would vary with the degree of Communist dominance -- greatest in the case of a PCI-PSI alliance, less in a national coalition of many parties, least of all in the case of a nonorganic association with the government on certain programs.

As for the economy, capital markets will be jittery following the elections -- the more jittery the greater the gains posted by the Communists. An acceleration in capital flight is almost a certainty. The severity of the outflow will depend both upon the speed with which a new government can be formed and the shape the new government takes. The longer the period of uncertainty and the greater the control given the Communists, the larger the drain on capital will be and, hence, the likelier the shift to more radical economic policies will become. Reactions of the main parties and in the economy would be as follows:

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A. The Left Alliance of Communists and Socialists

1. Political Repercussions

Passage into the opposition by the DC for the first time in the postwar period could not help but have a profound psychological effect upon the leadership and organization of the Christian Democratic Party. Nevertheless, we would expect that in the immediate post-electoral period the DC would respect the results of a popular mandate given to the left:

-- the DC would demand the strictest enforcement of the parliamentary rules of the game as the most reliable check upon a Communist-dominated government; and

-- the right wing of the DC would remain within the party and not become part of any extra-parliamentary opposition (which in any event we do not expect to be substantial in at least the near term).

The Christian Democrats, their supporters, and those who identify with DC fortunes could be further expected to undertake an immediate and searching review of their policies and positions. On the one hand, the prospect of an early return to government in the "Historic Compromise" coalition with the Communists would be likely to prove an increasingly attractive option to the left wing of the party.

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On the other, the strategy of seeking another round of elections and a rapid restoration of power would argue for minimal cooperation with the government and a firm right-of-center line. Thus the basic choice for the DC would be whether to return to power through negotiation with the Communists or to try a problematic return through the ballot box.

For the PCI, an alliance with the Socialists alone would be possible only under optimum conditions. Berlinguer, in formulating the "Historic Compromise" strategy, in effect acknowledged the impracticality of a leftist government as a near-term possibility despite its popularity with the PCI rank and file and with at least a part of the party leadership. Implicit in the concept is the conviction that Italy cannot be governed effectively or for long with the small and narrowly-based majority that such a government would likely command in present circumstances.

Going into a leftist government would result from unexpected election success and thus require a great deal of quick improvisation by the PCI in terms of both policies and personnel -- the latter because the PCI would have to staff more ministries and a larger part of the bureaucracy than under the "Historic Compromise".

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In addition, the PCI is wary of having the Socialists as its principal coalition partners -- a prospect that has been termed a nightmare by one Communist leader. The PCI has a low regard for the Socialists, viewing them as undisciplined, politically unsophisticated, opportunistic, corrupt and as generally unreliable allies.

The formation of a coalition with the Socialists in the near future might, however, cause Berlinguer fewer internal party problems than the "Historic Compromise," at least initially. The PCI rank and file would find a leftist government easier to understand and to accept. If the government failed to produce tangible benefits in the short run, Berlinguer might be pressed to leave the government or adopt a more militant line. This could conceivably produce a challenge to his leadership of the party despite his strong hold on it.

Although it can be anticipated that even a left alternative government would include experienced non-Communists in top cabinet posts, we would expect that accession to power by the PCI would create unprecedented difficulties for itself and its partners. Psychologically, the new government would be as unprepared to take power as the Christian Democrats to leave power. Operationally, the regime would

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not only lack depth and experience in broad areas but be forced to establish new relationships with the bureaucracy. Politically, the new government would not be apt to enjoy any more than a thin majority in the Chamber.

In addition, the leftist government -- provided it sought to honor the democratic process -- would be faced from the outset with critical problems of:

- reassuring domestic opponents, Common Market members, and NATO allies of Italian reliability;

- maintaining a parliamentary majority under conditions in which the cohesion of the Socialists might be continuously in doubt; and

- coping with the economic crisis, which certainly would be worsened by the installation of a Communist-dominated government.

The chances that such a beleaguered and largely isolated government could prove stable seem quite slim. Only if its domestic opponents, together with the EC and NATO, adopted an initial wait-and-see attitude and the new government managed to perform creditably for the first few months might the likelihood of its survival increase.

2. Economic Repercussions

A leftist government would have the most destabilizing impact on the economy of the three scenarios

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and would carry the greatest risk of radical policy responses by the PCI.

With the Communists and Socialists firmly in control, anxiety in domestic and international financial circles would become intense. A large outflow of capital is almost a certainty. A leftist government would attempt to deal with Italy's serious economic and financial problems in a conservative manner in order to have any chance of rescheduling existing debts and attracting further credits.

However, there is a high risk that economic conditions could deteriorate so rapidly that stringent trade controls and harsh domestic economic measures would be necessary. Under these circumstances, the leftist government would find it extremely difficult to obtain external private financial support, to reschedule existing debt repayments, and to obtain further borrowing from the West, leading to possible defaults.

Domestically, the Communists and the Socialists would find it difficult to agree on a stabilization program. Without the Christian Democrats in the government to share the blame of possible failure or adverse labor reaction, the Socialists probably would tend to water down Communist suggestions for fiscal conservatism and play down demands for wage restraint.

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Inflation would accelerate under pressure from a depreciating lira and inadequate austerity at home. Simultaneously, economic growth would falter as private investment plunged. As conditions worsened, the Communist Party might be tempted to adopt considerably more statist and authoritarian solutions than it now espouses.

B. The "Historic Compromise"

1. Political Repercussions

An "Historic Compromise" right after the election would probably create severe strains within both the DC and PCI. The threat of a split in the DC, however, might be somewhat mitigated by the following:

- maintenance of key cabinet posts and governmental patronage;
- fear that DC fragmentation would forfeit any prospect of tempering PCI policies; and
- concern that withdrawal of the DC would greatly lessen prospects for political and economic assistance from the West.

As for the Communists, the major impulse for Berlinguer's proposal was his desire to avoid the weakness of a left coalition and the right reaction that contributed to Allende's fall. The "Historic Compromise" is rooted in an old PCI

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idea: that the party must achieve a modus vivendi with the Catholic world in order to govern Italy effectively on the basis of a large parliamentary majority.

On the other hand, the formation immediately after the election of a government based on PCI-DC cooperation could present the PCI with some serious problems. Berlinguer has always viewed the "Historic Compromise" as a long-term goal whose achievement should come in stages designed to gradually accustom his own rank and file and non-Communists to the idea of the PCI as a governing party. At the base of the party there probably remains hard-line opposition to the idea of ideological dilution that alliance with Christian Democrats would imply.

The Communists see the "Historic Compromise" as holding the greatest potential for governmental stability, because:

- the issue of adherence to democratic norms would be muted;
- a solid parliamentary majority would be assured;
- Christian Democrats would almost certainly retain the premiership as well as the sensitive Foreign Affairs, Interior, and Defense Ministries; and
- EC members could be expected to take a broadly tolerant but conditional stance.

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An "Historic Compromise" government would command at least 70% of the votes in Parliament. It would probably have the support of several mass organizations, particularly those associated with the PCI. DC participation would dilute the PCI presence in the cabinet and would require fewer adjustments by the Italians than a PCI-PSI alliance.

Nevertheless, the "Historic Compromise" government would face formidable problems of

- reconciling non-Marxist and Marxist policy preferences;
- developing and carrying through coherent reform programs; and
- restraining competition between the DC and the PCI.

2. Economic Repercussions

From a strictly economic perspective, the "Historic Compromise" would be far less destabilizing than a left alliance. While some initial capital outflow would occur if the government quickly announced a stabilization program, possibly coupled with extension of the prior deposit scheme, anxiety in international capital markets would recede. Communist backing might even be viewed in an economic framework as a positive force lending credibility to the government program. Italian and foreign businessmen would remain uneasy, particularly toward long-term

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commitments, but capital flight would probably ebb at an early date.

The stabilization program would probably resemble previous center-left programs but would carry greater credibility because of a PCI commitment. The Communists, although favoring increased expenditure for social reform, would try to match additional spending with revenues obtained by tougher tax measures on upper incomes groups and corporations. Monetary austerity would probably be continued, with available credit being selectively channeled to small businessmen and to agriculture and other priority sectors. Italy's economic planning apparatus would probably be beefed up and given more authority, although initially planning would remain indicative in nature.



While any government including the Communists would rule out statutory controls on wages only, the Communists have promised wage moderation as a by-product of their entry. If convinced that the new government would carry through with social reform and possibly give them a greater say in business investment decisions, the unions might restrain further wage demands and strike activity and accept tighter controls on absenteeism at least for a honeymoon period.

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Inflation would remain high because of built-in factors such as recent wage settlements and lira depreciation. Nevertheless, moderated future wage demands and curtailed expansion of the budget deficit would bring some improvements in the inflation rate by year end. In contrast with the deterioration expected under the leftist alliance scenario the economy would probably continue to recover slowly.

Over the longer haul, however, PCI preferences for a strong central planning mechanism and for increased labor union control of investment decisions would tend to reduce the role of the market and free enterprise. At the same time, Communist approaches to agricultural development and foreign trade would tend to eventually alter Italy's traditional relationships within the European Community.

C. Government of National Unity or Grand Coalition

1. Political Repercussions

An expanded version of the "Historic Compromise," this multi-party coalition was identified in Berlinguer's May 13 speech as the PCI's immediate goal on the way to the "Historic Compromise". It would be made up of Communists, Christian Democrats, Socialists, Republicans, Social Democrats and Liberals and would,

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through the presence of the other parties, confer on the Communists the benefits of low visibility and respectability. If the DC, or most of it, refused to participate, the Communists and Socialists would be dominant. (The Republicans, Social Democrats and Liberals together polled only 12% of the 1972 vote.)

A Christian Democratic party that did not do particularly well in the elections would find a big coalition seductive, even though there would be substantial opposition to it. But with the choice between giving up power entirely and yielding to urgings to make just a small compromise to solve the economic crisis, the party's decision would probably depend on how well or how poorly it did in the elections.

Berlinguer's problem would be the reverse of the DC's. If the PCI performed well in the elections, a large coalition would seem to party hard-liners an unacceptably opportunistic compromise with ideological principles and, on practical levels, the acceptance of half a loaf when the whole was possible. The party secretary either discounts a victory of such magnitude that would permit either a left coalition or the "Historic Compromise", or has concluded that it is not politically feasible for the DC to agree to the "Historic Compromise" in its pure form at this time.

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2. Economic Impact

As an attenuated form of the "Historic Compromise", the national unity coalition would provoke similar reactions. Conditioned by concessions to the Liberals and Republicans, fiscal and monetary policies might be somewhat more austere than under the "Historic Compromise." The most widespread attitude among investors and businessmen would be wait-and-see until an economic stabilization program could be evaluated.



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IV. IMPACT ON EUROPE

A. European Attitudes Toward the New Government in Rome

Notwithstanding dissatisfaction with Christian Democratic leadership, no state in Western Europe favors PCI participation in Italian government.

Italy's neighbors seem well aware of the potentially destabilizing impact which Communist entry might have on intra-European, Atlantic, and East-West relations. The PCI has failed to remove deep-seated European reservations regarding its commitment to democratic processes and its autonomy from the Soviet Union.

West European governments have focused only recently on the prospect of Communist accession. Based on the supposition that the Communists will enter into a coalition in Rome, and the hope that such presence might not mean dominance, West European governments sought to preserve future options by avoiding a confrontational stance toward the PCI.

-- Political leaders, with the exception of NATO Secretary General Luns and West German Foreign Minister Genscher, have refrained from sharp public warnings of the dangers of Communist entry. Rather, they have tended to counsel against tough rhetoric as counter-productive in an

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Italian political contest said to be largely beyond external control.

-- Governing non-Communist parties have acted upon PCI initiatives to keep open channels of communication. Scandinavian Social Democrats as well as Dutch and British Laborites have received PCI representatives in past months. The West German SPD also has maintained informational contacts with the PCI.

-- Europeans have downplayed the possibility of any immediate PCI challenge to EC institutions, suggesting that near-term political and economic imperatives would oblige the Communists to abide by the letter and spirit of the Community.

The non-confrontational European approach to date reflects key underlying constraints:

-- Politically, West European leaders feel bound to respect the results of free elections in spite of their misgivings toward the PCI. Although EC members might bring pressure to bear to secure additional confirmation or guarantees of the PCI's democratic orientation, they could not be expected to question the legitimacy of a part-Communist government.

-- Economically, West Europeans have important shared stakes in minimizing the disruptive effects of PCI entry. Given the interdependencies of the EC, all members

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have an interest in halting the slide of the Italian economy regardless of the color of a coalition government in Rome. Italy's value as a trading partner leaves little practical alternative to containing its problems within the framework of Western institutions.

On the other hand, two pivotal West European governments must deal with electoral pressures which argue for keeping the PCI at arm's length. In West Germany, Chancellor Schmidt will have to guard his right flank prior to October elections while in France, President Giscard d'Estaing faces the prospect that his leftist opponents will be strengthened by Communist momentum in Italy. These concerns could work in the short run to reduce or delay financial, political, and psychological backing for a government in which the PCI took part. Nevertheless, neither the SPD/FDP coalition in Bonn nor the CDU/CSU has ruled out accepting a government in Rome which gave adequate demonstration of its commitment to the EC and NATO. At this point, in fact, both the West Germans and French seem disposed to be conditionally, if reluctantly, supportive of such a regime, mainly because they lack an alternative.

Diplomatically, US Allies can ill afford a transatlantic rift over the Italian situation. They will do

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everything possible to avoid having to choose between Washington and Rome. The very importance attached to the American engagement in NATO, together with the economic means at the disposal of the US, will sharpen pressures on Europeans to see their policies reconciled with those of their core alliance partner.

Should the PCI take on a governmental role, European responses would be conditioned further by its composition. A government including Christian Democrats and Socialists would be regarded as less threatening than a PCI/PSI coalition. In the first case, the overall weight of the DC and its presence in key ministries would provide both initial safeguards and continuity. The leftist alternative would be certain to give rise to far greater apprehension. Europeans would be skeptical that Socialists could provide any effective counterpoise to the PCI. EC members could be expected to be more circumspect, less forthcoming, and more demanding both in bilateral relations with a Communist-dominated government and in the Community context.

Least disturbing to Western Europeans would be a national unity coalition especially if it were keyed to Italy's economic crisis.

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On balance, the disposition in Western Europe is to avoid isolating Italy economically or politically:

-- The more sanguine rationale is that the PCI can be co-opted and that Communist power-sharing within a pluralist democracy could make West European CPs truly nationalist parties of the left.

-- The less sanguine rationale is that the West must be adaptive faute de mieux. Since a strategy of isolation would shake the existing framework, reduce leverage within Italy, and weaken democratic elements there to the further advantage of the PCI, the only recourse is to help stabilize the Italian economy and to seek the fullest guarantees of Rome's continued Western orientation.



By the same token, West Europeans remain attentive and largely sympathetic to concerns over security voiced by the US. The basis for American preoccupations has not been challenged publicly or privately. Within NATO, the implementation of safeguards would draw distinctions between Italy and other members. Yet it is precisely the drawing of distinctions which West Europeans would prefer to get around within the EC. Therein lies the crux of the problem for West European governments: to square their preferences

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with those of Washington under conditions in which the US is not only dominant within the Alliance but may (or may not) be decisive in buttressing the Italian economy.

B. European Support for US Policies

The immediate European concern is to influence the formulation of US policy toward Italy. The question of support will arise as our approach takes on more definite shape.

Thus far, European diplomacy has aimed broadly at softening the American line on Italy:

-- US Allies have stressed the need to take a "long view" of the Italian situation rather than to assume a posture which could reduce flexibility should the deterrence of PCI entry fail.

-- Europeans have emphasized similarly that their own economic welfare, and also some of their deepest political aspirations, are closely tied to developments in Italy.

The European premise arguing for a wait-and-see approach has been that the PCI will be adequately counter-balanced within the Italian Government. That is the setting

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E.O. 13526 (as amended) SEC 3.3
NSC Memo, 3/30/06, State Dept. Guidelines
By WFO NARA, Date 7/22/2014



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in which it is felt the continuity of Western relationships with Rome can and ought to be effectively maintained. Even so, key Allies have already hinted that they would follow the US lead in imposing limited restrictions upon Rome within NATO -- reduced access to classified materials, exclusion from MBFR deliberations, and possibly removal from the NPG. In return for these partial measures, Europeans would expect at least an acquiescent if not a constructive American stance as they sought to help redress the Italian economy. In effect, NATO and EC responses would be decompartmentalized as a means of reconciling intra-European and Atlantic needs.



The formation of a government in Rome, that was clearly a Communist instrument, would pose far starker problems. A conservative backlash could be expected in the Federal Republic. Elsewhere in Northern Europe, the longstanding hostilities of Socialist and Social Democratic parties to popular front coalitions would probably come to the fore. In France, Giscard would come under pressure to paint his own opposition on the left in the same colors as the new Italian government, whereas French Socialists would face the painful problem of putting distance between themselves and the regime in Rome.

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In sum, European leaders would stand to lose much of the domestic backing necessary to conduct supportive policies toward Italy. At the same time, they certainly could move closer to Washington, the further left the alignment of political forces in Italy appeared to be. Nevertheless, the Europeans are bound to look at the Italian problem through a European optic and we cannot count on them for support, particularly if the outcome in Italy is ambiguous.



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V. IMPACT ON US INTERESTS

A. Political

US Interests in Western Europe (Excluding specific NATO and Italian aspects)



Summary. Significant PCI participation in government would not immediately change Italy's Western European orientation -- including its participation in NATO and the EC. In terms of US interests, there would be a negative effect on the viability and effectiveness of the EC and on our relations with it; and in time our overall dialogue and cooperation with Western Europe would become more difficult. To the extent the EC -- and our ties to it -- were weakened, we would be compelled to put more weight on our bilateral relations with Western European governments and on restricted groupings excluding Italy. The picture of a PCI working effectively in an Italian government would enhance the possibility of a PCF-PS victory in the French parliamentary elections and could increase the domestic respectability of the Spanish Communist Party.

1. Consequences for US-EC Relations

The consequences for US-EC relations would depend on the degree of influence the PCI chose to exert

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on the Italian government and, in turn, the latter's policies. The PCI would tend to mute, at least in the near term, positions distasteful to other EC members and to the US. However, given the preference of Italy's EC partners for papering over differences rather than risk breaking up the EC -- and the need for unanimous votes on major questions -- a PCI-influenced Italy could effectively block positions favorable to the US. The probable outcome would be lowest-common-denominator EC positions which reduce EC capabilities in the foreign policy field and increase the difficulty of trade negotiations.

If the PCI chose to take an obstructionist stance within the EC -- an eventuality we do not consider likely at first -- the following specific consequences for US interests could be expected:

-- The development of a Community foreign policy would be slowed. Whatever foreign policy specifics the EC could agree on would be less likely to favor US interests (e.g., EC assistance to the non-Communist development of Portugal would have been harder to achieve).

-- US-EC negotiations on trade would become even more difficult and protracted.

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-- The Community's formal dialogue with the US would become more restrained and guarded, and hence less useful.

-- It would be somewhat more difficult for the EC to speak with one voice in international forums and on such issues as North-South relations.

-- The process of European unification would be complicated and further slowed.

-- In the unlikely event that the EC responded to these and other negative consequences by expelling Italy or by splitting over the Italian issue, US interests would be adversely affected because (1) EC viability is important to us, (2) the EC connection is an effective constraint on the PCI and a partial guarantee of its good behavior, and (3) expulsion could drive Italy closer to the Soviet camp.

2. Consequences for Our Overall Relationship with Europe

With the PCI in an Italian government, it would be more difficult for the US to consult and cooperate with European institutions in which Italy is represented. Since our most productive dialogue with Western Europe is carried out with countries with which we share common values and a common vision of international affairs, there would be more of a premium on our relations with countries which still

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unmistakably share such common interest. That means we would be drawn into greater emphasis on our bilateral relations with the FRG, France, and the UK. There would almost certainly be a tendency by those countries to move toward a closer grouping or "directorate" and to encourage us to deal with it as such.

3. Consequences for Western European Communist Parties

Since it may take some time before it is clear that the PCI has either failed or succeeded as a governing partner, there should be little short-term effect on the status or policies of Western European CP's. As long as the PCI seemed to be doing well and to be accepted, there would be an immediate boost for those parties. In France, if such a situation continued, the PCF-PS's prospects for the 1978 parliamentary elections would be enhanced.

In Spain there would probably be increased pressure on the regime from the democratic opposition -- and, outside the country, from northern European governments and from left-wing parties -- to legalize the PCE. Since the regime might be inclined to stonewall against such pressures, the result might be a destabilization in Spain and an attenuation of Spain's relations with Western Europe.

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If the PCI "failed" and was expelled from the Italian government, the circumstances of its failure would determine the effect on other Western European CP's. Their position could be strengthened if the failure were attributable to right-wing and/or US pressures, weakened if the PCI simply proved inadequate to the task or less democratic and moderate in practice than in its rhetoric. But a PCI acceptance of its "expulsion" and a return to legal, political opposition would strengthen the arguments in favor of trying the same experience elsewhere.

Moderate PCI behavior would tend to encourage similar behavior on the part of other Western European CP's -- e.g., on economic management, political pluralism, or NATO cooperation -- which, while increasing their domestic legitimacy, would also probably widen their rift with Moscow. The Italian version of Marxism-Leninism would also gain increased ideological legitimacy among other Western European CP's. Immoderate PCI behavior, on the other hand, would cause serious damage to the domestic respectability of those parties -- much more damage than Cunhal's extremism caused, since the PCI has the reputation of a "different" and "liberal" party. Such damage would not be reparable by any policy changes open to the Western European CP's.

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US Interests Toward the Soviet Union, East-West Relations, and International Communism

We expect participation of the PCI in government to have the following short-term effects in the three categories noted below:



1. US-Soviet Relations

-- If, as we anticipate, American public opinion reacted negatively, it could become a potentially serious irritant in US-Soviet relations. This is particularly true of the current election period, when US-Soviet relations are under careful scrutiny.

-- The Soviets would in turn try to use our opposition to a PCI share in power to widen our differences with leftist and center-left governments in Europe and to accuse us of interference in internal affairs.

-- If the Italian government met with severe economic reverses, we would expect the Soviets to mount a major propaganda campaign accusing us of scuttling the sinking ship as a device to conceal Moscow's unwillingness or inability to bail out the PCI.

2. East-West Relations

-- Assuming the PCI were less supportive of instructions such as the EC and NATO, the West Europeans

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would be likely to become more guarded about the value of detente.

-- Depending on the US course of action, serious questions could arise in Western Europe concerning the intensity of US commitment to Western Europe. This, combined with questions concerning the political reliability of the Italian government, could lead to a slow-down in negotiations such as MBFR as the Allies reassess the balance of power in Europe.

-- The official East European reaction to PCI participation is likely to be an attempt to further promote close, friendly relations with Italy. Assuming a stable Yugoslavia, we would not anticipate any immediate impact on the East European body politic. An unstable Yugoslavia would probably work against the PCI by opening up undesirable perspectives to non-Communist Italians.

3. The World Communist Movement

-- The PCI's prestige within the European Communist movement would be strengthened and in turn should strengthen the hand of those who want to declare their independence from Moscow within the Communist movement and thus diminish Moscow's ability to use the movement as a Soviet foreign policy tool.

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-- If the PCI became more responsive to Italian public opinion, it might be forced to oppose Soviet policies -- both internal and external -- more clearly than in the past. This would be particularly true of Soviet internal policy toward dissidents and foreign policy toward the nations of Eastern Europe.

-- The PCI would then be even less willing to compromise with the Soviets on issues such as the European Communist Party Conference. Indeed, it would probably want to further reduce the visibility and importance of such meetings and might even become less interested in attending them.

-- While China would be concerned that NATO might be weakened, the enhanced position of the PCI within the European Communist movement might also strengthen China's hand vis-a-vis Moscow, not only in Europe, but in the remainder of the world as well. In any case, it could give impetus to the centrifugal forces already at work within the international communist movement.

B. Security

PCI participation would impact on US security first because of the overwhelming importance of Italian geography and facilities for the defense of NATO's

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Southern Flank and operations in the Mediterranean; and secondly and of equal importance, because of the broad consequences for NATO if Italy should ultimately withdraw or freeze its participation, or if the Italian situation should decay into violence.

Ten NATO commands are located in Italy, and attest to Italy's central strategic role in the defense of the southern European theater. These commands include the headquarters for all Allied forces in the Southern Region (AFSOUTH, in Naples), as well as subordinate commands for air, naval and ground forces. Also located in Italy are the SACLANT anti-submarine warfare research center and the NATO Defense College. Italy also provides important facilities for US and NATO communications, linking the entire Southern Flank to the Central Region. It is also a key link in the region's early warning system.

Italy is central to US and NATO military organizations and operations for Southern Europe and the Mediterranean. It is also of importance to US contingency Middle East operations; and Italy's role in NATO and the US and NATO

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presence in Italy are elements in the balance that supports Yugoslav independence. Base facilities and real estate available to US forces in the Central and Eastern Mediterranean area are a costly and decreasing commodity, and are subject to considerable political risk, as Greece and Turkey have illustrated over the past two years. Given the regional focus of US and NATO installations in Italy, realistic and reliable alternatives are not available. Greater utilization of Spain for bases, even if it were possible, would be of strategic rather than regional significance with regard to the Eastern Mediterranean.

The United States maintains an extensive military presence in Italy that engages over 14,000 US military personnel (of which over 1,000 are assigned to NATO commands). Counting dependents, the total military-related US presence in Italy is around 29,000. Italy now hosts more than half of all the port visits made by the Sixth Fleet throughout the Mediterranean.

Gaeta and Naples are, respectively the home port of the US Commander, US Sixth Fleet, and his flagship, and the center of the Sixth Fleet maintenance and support activities. The naval communications station, Italy, at Naples, is the area communications master station. La

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Maddalena on Sardinia hosts the US submarine refit and training facility, and US naval aircraft operate from Sigonella on Sicily. Major US Army bases in Italy include Camp Darby at Livorno (Leghorn) and Camp Ederle at Vicenza. The US Air Force has a major base at Aviano, near the Austro-Yugoslav border and an important communications intelligence installation at San Vito dei Normanni, facing Albania. Each of these bases exists as part of a NATO-related defense activity. All of them support, augment and are integrated into the NATO southern flank and Mediterranean defense posture in such a manner as to complement the contribution and capabilities of Italy's own extensive armed forces. Most important is the fact that Italy is the major NATO logistic base for the Mediterranean area. Under the NATO Infrastructure program the NATO nations have multilaterally funded for ammunition storage facilities, POL supply points, port and ship maintenance facilities, weapon system storage and maintenance installations and other logistic activities vital to NATO operational effectiveness in the southern area. There is no suitable substitute for this logistic support capability. (NATO commands and facilities are listed at Tab 2; US facilities are discussed at Tab 3.)

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Italy's own forces make a major contribution to NATO's air and sea capabilities in the region. The vast majority of Italy's 364,500 man armed forces are committed to NATO; the bulk are assigned critical missions for AFSOUTH.

The Italian Navy, numbering about 42,000 men, is considered to be the country's most capable armed force. It has benefited from passage of the Navy Promotional Law which enabled the upgrading of its combat capability, a development especially timely in light of the declining Mediterranean presence of the British Navy and the recent growth of the Soviet Mediterranean Squadron. Italy's present contribution to NATO's Mediterranean naval posture is second only to that of the United States. In support of its mission of ensuring Allied control of the Mediterranean, over 40 surface and sub-surface combatants as well as 46 shore-based maritime aircraft are committed to AFSOUTH. An additional 43 ships and 33 aircraft are available to NATO when needed. Italy normally contributes a destroyer-sized ship to the Naval On-Call Force Mediterranean (NAVOCFORMED). Furthermore, Italian Naval Officers traditionally serve as NATO commander, Naval Forces Southern Europe (COMNAVSOUTH) and as Commander, Central Mediterranean (COMEDCENT). In wartime, COMEDCENT assumes control of all Italian and NATO naval forces in the central Mediterranean.

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Virtually all of the Italian Air Force's operational combat capability is committed to NATO.

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..... Seventeen of the country's 18 combat squadrons form the bulk of AFSOUTH's 5th Allied Tactical Air Force located at Vicenza Air Base. Italian officers traditionally lead this major NATO air command. The Italian Air Force numbers over 62,500 men.

The vast majority of Italy's 260,000 man current Army strength is also committed to NATO. Included are three major corps headquarters under which are four combat divisions, nine combat brigades as well as numerous combat and combat support regiments. The Italian Army presently forms the bulk of forces assigned to Allied Land Forces Southern Europe (LANDSOUTH). LANDSOUTH, located near Verona, is commanded by an Italian general and has the principal mission of defending southern Europe from a land threat to Italy's strategic northeast border.

Problem Areas

Should the PCI become a participant in a future Italian government, problems would arise concerning:

- Italian status in the Alliance;
- participation in fundamental NATO committees and

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sensitive Alliance organizations such as the NPG;

-- access to sensitive information;

-- continued operation of US and NATO facilities in Italy.

While these questions were raised with respect to Portugal in 1974-75, the far greater scope and depth of Italian involvement in NATO and the significant US military presence in Italy would make the problems quantitatively and qualitatively different.* Other questions will surely arise concerning the level of the Italian defense effort and the commitment of Italian forces to NATO roles.

Status and Participation

The North Atlantic Treaty has no provision for expulsion of a member nor for forcing a partial role on an Ally. Precedent in the case of France and Greece has established that a partial role can result from a voluntary

*By contrast to Italy, Portugal, with the exception of the Azores, had only a small defense involvement with the rest of NATO. One NATO command was located in Portugal; Portugal made marginal force contributions to NATO; and it was at the remote end rather than the center of regional communications, early warning, and other systems.


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action by a member state which can withdraw from specific NATO activities or committees. In 1956 when a Communist Minister assumed office in Iceland, Iceland authorities discreetly agreed to forego NATO classified information above SECRET and to restrict access to NATO documents to the Prime Minister and Foreign Minister. In the case of Portugal, Lisbon's willingness to accept restrictions proposed by others made possible an artful "interim" relationship which was initiated and later largely rescinded on an ad hoc basis. Portugal was excluded from the NPG, from information SECRET and above, and from participation in Alliance discussions on such as MBFR, with relatively little difficulty. Portuguese participation in NATO meetings was also restricted to the Ambassador or equivalent level.



However, a basic constitutional problem and a lack of precedent exist if a member takes no initiative to withdraw from the Alliance or its particular activities and on the contrary, wishes to remain active in all aspects of Alliance work. A government with PCI participation could attempt to maintain the full range of participation in NATO, and this would, in itself, raise serious problems. (Unlike Portugal, Italy is, for example, one of the four permanent

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members of the NPG, and has in the past attached considerable importance to this mark of its status within the Alliance. The next semi-annual meeting of the NPG, scheduled for the fall of this year, could thus be an early point of confrontation.) (A discussion of Italy's role in NATO bodies is at Tab 4.)

Access to Classified Information

The protection of NATO classified information -- both in fact and appearance -- will present immediate problems if the PCI enters the government. At the same time, NATO security provisions could offer one avenue for orchestrating involuntary curtailment of NATO activities if we desired to do so for reasons beyond security.

NATO regulations, however, contain a number of ambiguities which ultimately tend to make exclusion of an Ally from certain categories of classified information contingent on that country's willingness to accept it, or a virtually unanimous position among other Allies, or an act of fiat by NATO's Secretary General (which must enjoy general support from NATO members to succeed), or some combination of these factors.


NATO's security regulations are based on the premise that a member government grants security clearances to its nationals; the nature of the government in a particular

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member state is not addressed. NATO regulations require that common standards of security be maintained among Allies to insure that classified information can be passed from one department within an Allied government to another, and between governments without jeopardy. A national security organization is also necessary for collecting intelligence relating to espionage, sabotage and subversion. It is conceivable that, even if the Communists entered the Italian government, Italy could, at least in a formal sense, meet these requirements. The determination that Portuguese security was inadequate in 1974/75 was made on assessment of these technical requirements and not on an overall political judgment, although that, of course, motivated the decision.



There are also some gray areas in Allied security procedures which could be considered in restricting Italian access to information: (1) classified information originated by one government can be considered as its property, permitting control over information of US or other national origin in the NATO system without raising broader constitutional issues; (2) in the case of information which is compromised, the originating government or other Allies may take steps they deem necessary.

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In practice, however, use of such procedures to restrict Italian access would need widespread support to work. Otherwise, a major political disagreement could result, possibly forcing the withholding of national information from the Alliance as a whole, and running the risk of paralyzing NATO work generally. Imposing stringent security restrictions on Italy would be additionally complicated by the presence of large Italian contingents in NATO staffs outside of Italy (125 in SHAPE and a large number in Brussels, including Deputy Secretary General Pansa). Equally important, security restrictions against Italy would severely disrupt operations in Italy. Restrictions, in turn, could be used by the PCI as an excuse for Italian retaliation against NATO and/or US facilities. (A discussion of the impact of possible restrictions on NATO communications facilities in Italy is at Tab 5.)

Possible Short-Term PCI Objectives Relating to US Facilities

We do now know how the PCI will wish to treat Italy's defense relationship to NATO and the US.
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Alliance (as well as its continuing participation in Allied activities) should remain unchanged.

If the PCI were inclined to take partial steps to minimize the operations or visibility of US or NATO facilities in Italy, the most likely targets would include:

1. Homeporting for the Commander, 6th Fleet (Gaeta)

Elimination of homeporting rights could be presented by the PCI as a "safe" reduction of US presence following the Greek precedent in the technical sense of a homeport for vessels and a residential community for families and dependents would not pose unacceptable damage, since the homeported Sixth Fleet flagship requirements could be fulfilled by units rotating from CONUS. Any moves to restrict 6th Fleet facilities or arrangements other than homeporting could, however, be far more serious. The 6th Fleet facilities centered at Naples should be considered of paramount importance in today's political environment in the Mediterranean, particularly bearing in mind our recent experience with Greece and Turkey. Loss of these arrangements would have a deleterious effect upon efficiency of Sixth Fleet operations in the Mediterranean, and could have grave implications for our performance in a European or Middle East contingency.

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2. Changes in Command arrangements at US facilities, for which negotiations with Greece and Turkey provide recent precedents. If the PCI displayed goodwill, this could be relatively innocuous and cosmetic; it could easily, however, become a source of major friction.

3. Revision of US Status of Forces Agreement (SOFA), also in line with Greek and Turkish precedents; how difficult this would be would depend, again, on PCI intentions.

4. Nuclear Subtender at La Maddalena. There is recent precedent in the Spanish agreement setting a date for formal withdrawal of US SSBN's from Rota. La Maddalena has been an occasional PCI target in the past. Its loss would impose operational constraints on the US Navy, shortening the deployment cycle for submarines in the Mediterranean, and requiring additional vessels to maintain present deployment levels.

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6. Communications Facilities. Loss of naval communications station Italy would pose staggering financial and planning problems. The fleet satellite communications system is based on, inter alia, the facilities at NAVCOMMSTA Italy. The location of the satellites in this system has been carefully chosen relative to existing ground stations to best satisfy user requirements. Loss of NAVCOMMSTA Italy would require major realignment of the system.

7. Procrastination. The PCI could seek to encourage the Italian bureaucracy to delay or obstruct the Italian support necessary for operations of US or NATO facilities.

C. Economic

Under any scenario other than a left-wing coalition there is apt to be little immediate threat to the viability

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of the world trading and financial system in which US interests are most vitally concerned, nor towards US direct investments in Italy whose book value is about \$3 billion. Under a left-wing PCI-Socialist coalition economic conditions in Italy could deteriorate rapidly with repercussions that are difficult to foresee.

US Trade Interests

US trade interests which might be adversely affected by PCI entry into government extend beyond our bilateral trade although the US is a major trading partner of Italy, ranking third in both Italian imports and exports (Italian trade with Germany and France and the EC as a whole is much more important). Italian imports of US goods account for about 7% of the total while exports to the US are around 8% of total exports. On the other hand, Italy only accounts for a fraction of our trade: exports to Italy have been 2.5%-3.0% of total US exports in recent years and imports have been about 2.5% of the US total. Thus, in the first instance, disruption of the bilateral trade pattern would impact relatively more on Italy than on the US. However, if Italy were to impose nondiscriminatory import controls or restrictions, the effect on the intra-EC trade relationships would be much more significant and pose a second order problem for the US. Other countries



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Western Europe in total American direct investment and twelfth in total American direct investment on a worldwide basis. US adjusted earnings on direct investment in Italy amounted to \$278 million in 1974, with repatriated earnings of \$61 million.

American direct investment is concentrated in the petroleum and metal-mechanical sectors. Total new American direct investment in Italy was \$567 million in 1974, of which \$350 million represented net capital outflows and \$217 million, reinvested earnings. Although 1975 investment figures are not yet available for Italy, because of the recession it is unlikely that significant new outflows of American direct investment capital went to Italy last year.

Since the PCI does not advocate further nationalizations at this time of private enterprises, domestic or foreign, it is doubtful that any part-Communist government in Italy -- even one in which the PCI played the dominant role -- would alter the structure of ownership of American direct investments over the short term. However, the economic repercussions flowing from the installation of a leftist coalition government, and specifically, the domestic controls that would be required to stabilize the country's financial situation might well affect adversely the profitability of American multinationals.

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in similar circumstances might also impose trade restrictions and the whole matrix of international trade could be disrupted.

A table summarizing US exports to Italy over the last three years is at Tab 6.

Over the short term it seems unlikely that the PCI influence in government would affect any particular category of our major exports, although nondiscriminatory controls would reduce the demand for all exports. Under certain circumstances a new government might be tempted to impose trade restrictions which discriminate in favor of the EC -- e.g., as a quid pro quo for EC financial assistance. However, it seems unlikely that the EC would favor or accept such a policy.

(On the other hand, it would be much more difficult in the future to argue against protectionist moves in the United States affecting imports from Italy. Previous arguments citing the need to preserve our close ties and relationships would be less persuasive.)

US Direct Investments

The US direct investment stake in Italy is substantial. By the end of 1974 the total book value of American direct investment in Italy had reached nearly \$3 billion (See Tab 7). Italy thus ranks seventh in

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