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11/9. may like to see Az. 24/9.

Mr DeLlew
Minister

The gossip at a US Embassy cocktail party which I attended yesterday evening was on similar lines. Sferazza (DC foreign affairs office) thought that Cossiga's new Ministers were on the whole doing rather well - though he too specifically excluded Reviglio. Most people thought that the DC Congress might well be postponed from the presently planned date in December in which case the Cossiga Govt would probably last longer than had at first been supposed.

1. I had lunch to-day with On. Azzarro, who is Sottosegretario at the Ministry of Finance, and Antonio di Majo, at the Bank of Italy, who was Economic Adviser to Malfatti when he was Minister of Finance and is still involved in much of the work of the Ministry.

2. Di Majo told me that the appointments in the Bank of Italy which are heralded in this morning's press are practically certain. He himself had led a small lobbying campaign in favour of bringing back Dini to be Director-General. Ciampi had long been the obvious choice to succeed Baffi: he would be much more acceptable to the Christian Democrats, though there is no question that he was a Bank of Italy man first and foremost. Di Majo thought that the Government might send Sarcinelli to Washington to succeed Dini: this would get him well out of the way of the famous Bank of Italy scandal, and he was well qualified for the job. His international reputation was high. I asked whether the Magistrature would not object to this. Di Majo thought not: the Magistrates had been very quiet of late. He thought that they were afraid that Cossiga would be less favourable to their cause than Andreotti had been. He also thought that Andreotti and other powerful men who had been sorry to see Sarcinelli in trouble (whether or not they had instigated that trouble themselves) would be very happy to see him go to Washington, well out of the way. This was another reason why the Magistrates would probably not oppose the move.

3. Both Di Majo and Azzarro criticised the new Minister of Finance, Reviglio, very severely. Di Majo said that he was a socialist, sig. FIL, that is to say Mr GDP. This refers to his habit of basing every suggestion on some factor related to GDP and of course implied a total lack of touch with reality. The last example of Reviglio's incompetence was the row in the press in the last two days about taxation on property. Present Italian law requires that the income imputable to residential property should be declared on income tax forms. The value used should be based on the land register, and was something like the British system for determining the rateable value of property. It gave a very low figure for potential rent. Reviglio wanted to base this figure instead on the actual rentable value on the basis of the equo canone, and to index it to the relevant inflation figure. In other words Italians would pay tax on income they were not receiving and that income would be indexed. This was both unjust and politically out of the question. I think on Reviglio in Avanti had been the severest that Azzarro could remember seeing in the press against any Italian politician. Members of his own party had rung him up to ask what kind of madness was abroad in the Ministry. Reviglio would surely have to grieve. He added darkly that Reviglio had made himself

unpopular with his officials by calling meetings at the unprecedented hour of 3 pm. Di Majo who is a close friend of Ciccio, the socialist economics spokesman, told me that contrary to what had been reported in the press Reviglio was not regarded by the socialists as their man: indeed his appointment had been manipulated by Pandolfi, not the socialists.

4. Both Di Majo and Azzarro had a high opinion of Andreatta, who they thought had made a sound start at the Ministry of the Budget, and who besides being a much better economist than Reviglio, was also thoroughly in touch with political realities.

5. Azzarro told me that much work was now being done in the Ministry on the Finance Bill which would accompany the 1980 budget. Since this Government had very little chance of getting any substantial legislation through Parliament, there was a danger that it would attempt to overload the Finance Bill, whose passage by the end of the year through Parliament was more or less guaranteed. For instance Reviglio wanted to include in it the formation of a central corps of Tax Inspectors at the Ministry, which he described as a sort of body of income tax 007s. This really should require an institutional law, and was quite inappropriate to the Finance Bill. He feared that the Finance Bill might get into difficulties as a result.

6. Azzarro confirmed that the package of energy measures had been passed at last Friday's Council of Ministers only after a very tough struggle: the original proposal had been for a much greater increase in the price of petrol.

7. I asked Azzarro whether the Government was worried about the apparent PSI flirtation with the Communists (Azzarro is a ~~fanatic~~ fan). Azzarro said that they were not particularly worried since they believed that the socialists would allow the Government to continue ~~any~~ after the Congress season. Azzarro felt the socialists had perhaps made a mistake in seeking this meeting with the Communists: he was sure that nothing concrete would come of it, and it would be portrayed in the press as a failure or even breakdown. The socialists' strategy, as the PCI well knew, would be to try to persuade the PCI to acquiesce in a Government headed by a socialist Prime Minister in coalition with the Christian Democrats. The socialists' idea was that this would put them in a fine position for the next elections, where they would be bound to gain votes. The Communists were too aware of the dangers for their own position to fall for this. And indeed, since any substantial gain on the part of the socialists would tend to bring the alternativa di sinistra closer, he did not think that the Christian Democrats would in the end fall for it either. Within the Christian Democrat party he thought that attention was being focused away from the position of President of the Council, since it was felt that this position was likely to be an ~~unavailable~~ ^{available} party jobs. However, the election of Bianco as Capogruppo in the Camera had thrown everyone into confusion. No-one wanted to be /the

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the first to form "schieramenti: everyone wanted to mediate between the schieramenti, which was difficult when they did not yet exist. There would be very hard infighting in the Christian Democrats Regional Congresses, which would not be reflected very much in public comment. Azzarro did not believe that Zaccagnini would in the end stand again.

Surely, he has said he will stand alone.

Zaccagnini

19 September 1979

A C GALSWORDTHY

Today's press does not suggest that the Craxi/Beringuer meeting went the way Azzarro expected, though their alliance may not last. There is nevertheless some interesting gossip here.

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