

SAVING TELEGRAM

BY BAG
 FROM ROME
 TO FOREIGN AND COMMONWEALTH OFFICE
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INFORMATION SAVING UKREP BRUSSELS, EC POSTS, WASHINGTON, MILAN
 ITALY'S INTERNAL SITUATION

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1. The PCI have continued to exploit the Bologna tragedy for a sustained attack on the Government, accusing them of creating the conditions in which such acts of terrorism can take place and of not responding firmly enough. Events in Poland have also prompted a lively debate but there has been broad agreement among the main parties on the correct response: the PCI gained points by accepting that the Polish workers' legitimate demands went beyond better pay and conditions to include reform of the political apparatus. The DC, PCI, and PSI are all represented in the delegation of the three union federations which is leaving today for Poland.
2. The Chamber interrupted its summer holiday to reassemble on 19 August and discuss the two economic decree laws described in Rome Savingram 27: the proposed levy for the South had already been dropped because of sharp criticism led by the PCI. The decree laws were due to lapse on 1 and 7 September unless approved by Parliament. Cossiga's discussions with Party leaders showed that he had the firm support of his partners in Government and that the PCI would be content to negotiate a series of substantial amendments. But the MSI (Neo-Fascists) would not withdraw any of their 850 minor amendments and threatened filibuster tactics, which destroyed any chance of passing the laws in the time available, even with all-night sittings. The Government had introduced controversial legislation far too late in the summer; and the parliamentarians dislike legislation by decree.
3. On 26 August Cossiga decided to demand confidence votes, thus precluding detailed discussion: he gained a comfortable majority in two votes on 27 August (57 and 60 votes). This

political gesture demonstrates the Government's ability to survive, and there may be a third confidence vote to reinforce the point. But the decree laws will lapse and the Government have no choice but to present a revised economic package in the autumn. Meanwhile the overheating of the economy will continue, and there is renewed gossip that devaluation of the already weak lira may be inevitable. In political terms, also, the Government's position is weakened; the PCI are arguing that, although able to cobble a majority together, Cossiga has shown himself unable to govern Italy effectively. If the economy does badly in the autumn, a new government seems unavoidable in due course.

4. For the time being there is comfort for Cossiga in the firm support of the Republicans and the Socialists. Of the latter, Craxi, with his eyes on the Prime Ministership next time round, will not precipitate a crisis until he judges the moment propitious for his chances, although he may raise the price of PSI support in certain areas. He may well prefer to await the outcome of the PSI congress due some time this autumn (perhaps November) which is expected to confirm his grip on the party. Officials in Cossiga's office have told us that they think the PSI congress may be the crucial time; for the moment the Government are agreed to hold together but are not clear on what policy they should pursue. This may not have much direct effect on the economy but it undermines confidence.

5. The position remains, therefore, that Cossiga's government is not under immediate threat but has very limited room for manoeuvre. The PCI will seize every chance of attacking the Government: apart from economic problems, the discontent of the magistrates and problems of public order generally should give them plenty of scope this autumn. Its underlying weakness may lead the Government to adopt positions designed more for political advantage than anything else: Signor Colombo's wish to see the Nine take a forward policy over Poland (UKMIS New York telno 1164) may be an early example,

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though this seems to be a personal initiative of Colombo's. It is still true (Sir R Arculus's savingram under reference) that much depends on whether Cossiga has taken fresh heart after the holidays; the first accounts suggest that he will take a few more days off in Sardinia next week, and needs them.

6. The prospect of The Queen's State Visit may well ensure the postponement of a crisis until after it has taken place in mid October.

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**THIS TELEGRAM
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