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18 MY TELNO 192: ITALY INTERNAL

1. ELECTIONS THIS SUMMER, WHETHER ON 19 OR 26 JUNE, NOW LOOK THE MOST LIKELY OUTCOME, BUT A NUMBER OF CONSTITUTIONAL PROCESSES MUST BE GONE THROUGH FIRST. THERE WILL BE A DEBATE IN THE SENATE ON 28 APRIL, WITH OR WITHOUT A VOTE OF CONFIDENCE, FOLLOWING WHICH FANFANI IS EXPECTED TO RESIGN. PRESIDENT PERTINI WILL UNDERTAKE THE CUSTOMARY CONSULTATIONS WITH FORMER PRESIDENTS OF THE REPUBLIC, THE PRESIDENTS OF THE SENATE AND CHAMBER OF DEPUTIES, AND THE PARTIES. ANY INVITATION TO FANFANI OR ANOTHER DC LEADER, TO FORM A MINORITY GOVERNMENT WOULD PROBABLY PROVE ABORTIVE (PARAGRAPHS 3 AND 4 OF MY TUR). PERTINI HAS ADMITTED TO JOURNALISTS THAT THIS TIME IT WILL BE FAR MORE DIFFICULT TO AVOID THE DISSOLUTION OF PARLIAMENT. SO HE IS EXPECTED TO APPOINT A CARETAKER GOVERNMENT WITH A MANDATE LIMITED TO PREPARING ELECTIONS, MOST LIKELY UNDER FANFANI.

2. CRAXI AND THE PSDI HAVE BEEN WIDELY CRITICISED FOR STARTING THIS LATEST CRISIS. A YEAR AGO, AFTER A LONG AND STEADY DECLINE FROM 20 PER CENT OF THE VOTE IMMEDIATELY AFTER THE WAY TO 10 PER CENT IN THE LAST GENERAL ELECTIONS (1979), CRAXI'S FORCEFUL LEADERSHIP HAD REJUVENATED THE PARTY. HE SEEMED TO BE THE ARBITER OF ITALIAN POLITICS AND COMMENTATORS WERE GIVING THE SOCIALIST PARTY UP TO 15 PER CENT OF THE VOTE. THE DC'S NEW LEADER, DE MITA, REASSERTED HIS PARTY'S ROLE, MAKING IT CLEAR THAT CRAXI COULD NOT CALL THE SHOTS AND PRESSING HIM TO CHOOSE BETWEEN THE DC AND THE COMMUNISTS (PCI) AS LONG-TERM ALLIES. CRAXI HAS RECENTLY COUNTER-ATTACKED WITH A TENTATIVE BUT INSUBSTANTIAL OPENING TO THE PCI AND THE POLLS ARE NOW GIVING THE SOCIALISTS UP TO 12 PER CENT. CRAXI MUST BELIEVE THAT NOW IS THE TIME TO INCREASE HIS PARTY'S VOTE OVER THEIR 1979 SHARE AND THUS INCREASE ITS WEIGHT IN THE COALITION (ALMOST CERTAINLY WITH THE DC) THAT WILL PROBABLY EMERGE FROM THE ELECTION.

3. THERE REMAINS A MINORITY FACTION IN THE PSDI WHO HANKER AFTER A COALITION WITH THE PCI. THE TROUBLE, AS CRAXI KNOWS, IS THAT IN ITALY THE MITTERAND/MARCHAIS STRENGTHS ARE REVERSED: IN ANY FORESEEABLE LEFT-WING ITALIAN GOVERNMENT THE PCI WOULD COMMAND, AND THE PSDI RISK LOSING THEIR IDENTITY.

4. THE DC WERE BADLY BRUISED BY THE 1981 P2 SCANDAL, THEY YIELDED THE PREMIERSHIP TO SPADOLINI, AND DESPITE THEIR ELECTORAL STRENGTH TAMELY SUFFERED CRAXI'S CHALLENGES. DE MITA HAS RESTORED

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THEIR FORTUNES, BUT AT THE EXPENSE OF ALIENATING OTHERS IN HIS PARTY. FOR DE MITA, ELECTORAL FAILURE COULD CALL HIS LEADERSHIP INTO QUESTION. THIS IS THE SAME FOR CRAXI.

5. THE PCI ARE MORE COMFORTABLY PLACED THAN FOR SOME TIME. THEY ARE USED TO OPPOSITION, AND HAVE BURIED THE EXPERIMENT OF THE SEVENTIES, UNPOPULAR WITH MANY PARTY STALWARTS, OF AN HISTORIC COMPROMISE WITH THE DC. THEY ARE EXPECTED TO MAINTAIN THEIR VOTE AT SLIGHTLY OVER 30 PER CENT, AND ARE URGING CRAXI TO MAKE A CLEAR CHOICE FOR LEFT-WING REFORM AND JOIN THEM AGAINST THE DC (JUST AS THE DC ARE URGING THE PSI TO COMMIT THEMSELVES TO A POST-ELECTORAL PACT). THE PARTY HAS PROBABLY BENEFITED FROM BEING IN OPPOSITION WHILE THE SOCIALISTS IN GOVERNMENT WERE OBLIGED TO TAKE UNPOPULAR ECONOMIC MEASURES.

6. ASSUMING THAT THE DC AND PSI WILL EVENTUALLY FORM A NEW COALITION, I DO NOT EXPECT DRAMATIC CHANGES IN THEIR POLICIES. BUT THE PSI ACCUSES THE DC OF NEO-CONSERVATISM, AND ARE ALARMED BY RECENT CONSERVATIVE/DC GAINS IN EUROPE. THERE IS THE START OF AN ANTI-REAGAN UNDERCURRENT, AND CRAXI WILL HAVE TO BE CAREFUL NOT TO BE STAMPEDED ON ISSUES LIKE DEFENCE AND THE ECONOMY.

7. ON DEFENCE, THE DC, PLI, PRI AND PSDI REMAIN STAUNCH ATLANTICISTS AND COMMITTED TO INF BASING IF NECESSARY. THE MFA CONSIDER CRAXI'S SPEECH AT THE RECENT SOCIALIST INTERNATIONAL MEETING IN PORTUGAL A FIRM REAFFIRMATION OF PSI SUPPORT FOR THE ALLIANCE AFTER THE SLIGHT AMBIGUITIES OF HIS SPEECH AT THE PCI CONGRESS IN MARCH. HIS LINKS WITH MITTERAND AND DESIRE FOR ACCEPTABILITY IN US EYES REMAIN FACTORS OF STABILITY. BUT IT CANNOT BE EXCLUDED THAT ELECTORAL PRESSURES WILL ENCOURAGE CRAXI INTO SOME MORE EQUIVOCAL DECLARATIONS ON INF IN THE COURSE OF THE CAMPAIGN. IT WOULD BE GOOD NEWS IF LAGORIO (ON THE RIGHT OF THE PSI) REMAINS DEFENCE MINISTER AFTER ELECTIONS.

8. ON THE ECONOMIC FRONT, THE 1983 FINANCE BILL AND BUDGET WILL BE OUT OF THE WAY, BUT IT WILL BE VERY HARD FOR A CARETAKER GOVERNMENT TO IMPOSE THE FURTHER LIRE 7,000 BILLION OR SO OF CUTS OR INCREASED TAXES REQUIRED TO BRING THE 1983 PSBR INTO LINE WITH GOVERNMENT TARGETS: DECREE LAWS WOULD IN ANY CASE REQUIRE PARLIAMENTARY RATIFICATION WITHIN 60 DAYS, AND THE DISSOLUTION TIMETABLE RULES AGAINST THIS. IF FANFANI GOES TO WILLIAMSBURG HE WILL SUFFER FROM BEING A CARETAKER AND FROM THE DIFFERENCES WITHIN THE CURRENT COALITION. THE DC WILL LOOK FOR AN OUTCOME THERE THAT BROADLY ENCOURAGES ITALY'S POLICIES OF RELATIVE AUSTERITY: THE PSI WILL WANT A GENERAL COMMITMENT TO KEYNESIAN DEMAND POLICIES.

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9. THE ITALIANS WILL LIKEWISE BE ON THE SIDELINES AT THE STUTTART EUROPEAN COUNCIL. THEY WILL OPPOSE PROPOSALS ON THE BUDGET , INTERIM OR LONG TERM, WHICH DO NOT MEET THEIR OBJECTIVES, I.E. AN INCREASE IN OWN RESOURCES, NO DILUTION OF THE FRG SHARE IN ANY REFUNDS, AND MORE MONEY FOR MEDITERRANEAN AGRICULTURE. THE CRISIS WILL ALSO MAKE IT MORE DIFFICULT FOR THE ITALIANS TO AGREE TO CUTS IN STEEL CAPACITY, OR TO MODIFY THEIR LINE ON THE RESUMED MEDITERRANEAN ACQUIS NEGOTIATIONS AND MCAS. THE CARETAKER PRIME MINISTER AT STUTTART WILL HAVE A VERY DIFFICULT HAND TO PLAY.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES

CONSULATES IN ITALY ACTIONED.

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THIS TELEGRAM  
WAS NOT  
ADVANCED

[PASSED AS REQUESTED]