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- 4 AUG 1983

INFO PRIORITY PARIS ROMN WASHINGTON AND UKDEL NATO

MYTELNO 349: ITALY INTERNAL

1. DELEGATIONS OF THE FIVE POTENTIAL COALITION PARTNERS HAVE MET THREE TIMES, AND THERE HAVE BEEN NUMEROUS BILATERAL MEETINGS AS WELL. CRAXI IS NOT YET HOME AND DRY, BUT HE IS ALMOST THERE. THE CHANCES OF PUTTING TOGETHER ANY OTHER GOVERNMENT BEFORE 12 AUGUST, WHEN THE HOLIDAY EXODUS REACHES ITS PEAK, MUST BE VERY SMALL. BEFORE GOING ON LEAVE THIS WEEKEND I ATTEMPT TO DESCRIBE IN THIS TELEGRAM WHERE CRAXI'S EFFORTS TO FORM A GOVERNMENT NOW STAND. IT HAS NOT BEEN EASY TO CONTACT THE MAIN ACTORS WHO ARE IN ALMOST CONTINUOUS SESSION, BUT ZANONE (LIBERAL PARTY SECRETARY) TELLS ME THAT HE AT LEAST EXPECTS CRAXI TO SUCCEED.

THE SHAPE OF THE GOVERNMENT

2. MINISTERIAL APPOINTMENTS COULD BE DECIDED WITHIN THE NEXT DAY OR TWO. ANDREOTTI'S LAST-MINUTE EXCLUSION FROM THE FANFANI GOVERNMENT SHOWS HOW CRUCIAL DECISIONS CAN BE LEFT OPEN TILL THE VERY END. THE UNDERLYING PROBLEMS THAT CRAXI HAS FACED ARE THREEFOLD. FIRST DC WANT TO INCREASE THEIR NUMBER OF MINISTERS, BOTH AS THE PRICE FOR LETTING CRAXI IN AND BECAUSE THEY ARE STILL BIGGER THAN THE OTHER FOUR PARTIES COMBINED. SECOND THE SMALLER PARTIES ALSO WANT MORE: SPADOLINI IN PARTICULAR WILL EXPECT AN IMPORTANT MINISTRY. THIRD THERE HAS BEEN TALK OF CREATING ONE OR TWO VICE-PRESIDENCIES, OR OF BRINGING SOME OF THE PARTY SECRETARIES THEMSELVES INTO THE GOVERNMENT, PARTLY TO RESOLVE THE PROBLEMS MENTIONED ABOVE, PARTLY TO EASE THE PARTIES' INTERNAL DIVISIONS (EG WHAT TO DO WITH FORLANI'S SUPPORTERS IN THE DC), AND PARTLY NO DOUBT BECAUSE CRAXI MIGHT WELCOME A VISIBLE TOP-LEVEL COMMITMENT TO HIS GOVERNMENT FROM HIS PARTNERS.

3. THE PCI HAVE PROMISED OUTHRIGHT OPPOSITION, CRITICIZE A CRAXI GOVERNMENT AS THE SAME OLD FORMULA, AND REGRET WHAT THEY TERM HIS SURRENDER TO THE DC ON ECONOMIC POLICY. THIS MAY NOT PREVENT THEM FROM COOPERATING OVER PARLIAMENTARY REFORM, AND THE COALITION PARTIES ALSO SEEM AGREED THAT THE PCI SHOULD BE ENTITLED TO SOME CHAIRMANSHIPS OF PARLIAMENTARY COMMITTEES.

THE PROGRAMME: FOREIGN AFFAIRS AND DEFENCE

4. CRAXI'S TEAM HAVE SO FAR PRODUCED THREE VERSIONS OF A GOVERNMENT PROGRAMME. WE SHOULD NOT ATTACH TOO MUCH IMPORTANCE TO THESE BUT THEY PROVIDE A BENCHMARK AGAINST WHICH EACH COALITION PARTNER CAN SUBSEQUENTLY JUSTIFY ITS CONTINUED MEMBERSHIP OF THE COALITION OR ITS WITHDRAWAL. THEY ALSO ILLUSTRATE THE PRICE THAT THE PSI FEELS OBLIGED TO PAY FOR A CRAXI GOVERNMENT.

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5. THE FOREIGN AFFAIRS SECTION IS UNEXCEPTIONABLE. SO IS THE TREATMENT OF DEFENCE. THE DOCUMENT SAYS THAT THE GOVERNMENT WILL ASIDE BY THE 1979 DOUBLE DECISION. IT TALKS OF AN ITALIAN PEACE INITIATIVE, BUT ONLY IN CONSULTATION WITH THE US AND OTHER EUROPEAN COUNTRIES AND IN THE CONTEXT OF BRINGING THE GENEVA NEGOTIATIONS TO A SUCCESSFUL OUTCOME. LAGORIC HAS CAUSED A SLIGHT FLURRY BY ADVOCATING A NEW LOOK AT THE 'WALK IN THE WOODS' PROPOSALS AND BY ARGUING THAT THE WEST MIGHT BE FLEXIBLE OVER MISSILE INSTALLATION TIMETABLES IF, FOR EXAMPLE, THE USSR WERE TO COMMIT ITSELF TO BEGIN DISMANTLING ITS SS 20'S BEFORE 31 DECEMBER. WE SHOULD AWAIT CRAXI'S SPEECH TO THE CHAMBER OUTLINING HIS PROGRAMME BEFORE FORMING A JUDGEMENT.

ECONOMIC POLICY

6. THIS HAS BEEN AT THE HEART OF THE DISCUSSIONS. THE DC AND PRI WERE CONTENT WITH THE BROAD OBJECTIVES SET OUT IN CRAXI'S ORIGINAL DOCUMENT BUT FOUND IT TOO IMPRECISE. AFTER THREE REDRAFTS, AGREEMENT IS NOW REPORTED TO HAVE BEEN REACHED ON AN OUTLINE PROGRAMME. THE MAIN ISSUES REMAIN THE FIGHT AGAINST INFLATION AND REDUCTION OF THE PSBR. THE PRI AND THE DC HAVE SOUGHT, AND RECEIVED, GREATER PRECISION FROM THE PSI ON (1) PROPOSALS FOR AN INCOMES POLICY (REINFORCEMENT OF THE 22 JANUARY PAY AGREEMENT TO ENSURE WAGES ARE CONTAINED WITHIN INFLATION TARGETS FOR 1983 AND 1984). THE GOVERNMENT WILL COMMIT ITSELF TO SHARING THE BURDEN OF ENFORCEMENT MORE EQUALLY WITH EMPLOYERS AND UNIONS THAN IN CRAXI'S ORIGINAL DRAFT. IT WILL ALSO UNDERTAKE TO OPERATE A POLICY ON PRICES AND TARIFFS USING SIMILAR CRITERIA. (2) ABSOLUTE FIGURES FOR PROPOSED REDUCTIONS IN THE PSBR (AS OPPOSED TO THE ORIGINAL PSI TARGETS EXPRESSED AS PERCENTAGES OF ESTIMATED GDP, WHICH SPADOLINI CRITICISED). THESE ARE 10,000 BILLION LIRE FOR 1983, HALF TO BE MET BY INCREASES IN REVENUE AND HALF BY SPENDING CUTS OR POSTPONEMENT OF PLANNED SPENDING, AND 40,000 BILLION LIRE FOR 1984, 11,000 HILLION IN EXTRA REVENUE AND 29,000 BILLION IN CUTS. THE AIM IS TO REDUCE THE PSBR TO 10% OF GDP BY 1986; (3) TAXATION POLICY, WHERE INCREASES IN REVENUE WILL COME FROM ADJUSTMENT OF EXISTING REGIMES AND RECOVERY OF EVADED TAXES RATHER THAN FROM INCREASES IN THE OVERALL LEVEL OF TAX; (4) MONETARY POLICY, WHERE THE AUTONOMY OF THE BANK OF ITALY IS CONFIRMED.

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7. AGREEMENT ON THE INCOMES POLICY PROPOSALS AND ABOVE ALL THE PUBLIC EXPENDITURE PROPOSALS MAY PROVE VERY DIFFICULT TO SUSTAIN IN PRACTICE. PARLIAMENTARY APPROVAL OF SPECIFIC MEASURES WILL BE REQUIRED THIS AUTUMN AND CANNOT BE TAKEN FOR GRANTED. PSI DIFFERENCES WITH THEIR PARTNERS MAY REEMERGE. NEVERTHELESS CRAXI IS NOW ESPOUSING AN ECONOMIC PROGRAMME CLOSER TO THAT WHICH DE MITA AND SPADOLINI ADVOCATED DURING THE ELECTION CAMPAIGN THAN TO THE PSI'S POLICIES. THERE IS NO SIGN OF A DASH FOR GROWTH. THIS COULD CREATE PROBLEMS FOR HIM WITHIN HIS OWN PARTY, EVEN IF IT OFFERS THE BEST HOPE FOR THE ECONOMY.

6. WE SHALL REPORT AGAIN WHEN A GOVERNMENT IS FORMED.

BRIDGES

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