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4 August 1983

ITALIA VOSTRA /

*Her Majesty's Ambassador at Rome to the Secretary of State
for Foreign and Commonwealth Affairs*

SUMMARY

The Ambassador's first impressions of Italy begin with a comparison of Italy in 1950 and 1983. The economic and social progress is remarkable. The appeal of Catholicism and Italian Communism is declining and the demography of the nation has changed fundamentally (paragraphs 1 to 5). Regional differences are still strong (paragraph 6) but the country is recognisably more European, particularly in the north (paragraph 7).

2. These achievements result from political stability at home, commitment to free trade, and access to prosperous markets. Current economic prospects are less bright: dependence on expensive, imported energy a particular burden (paragraphs 9 and 10).

3. Political stability also less assured after the June elections. Narrow margin between Christian Democrats and Communists alters the political balance, and makes the formation of Governments more difficult. Future policies of the two main parties is in some doubt (paragraphs 11 to 15). But Italy is more prosperous than the statistics show (paragraphs 17 to 19), and society more stable than it appears (paragraphs 20 and 21).

4. Operations against the Red Brigades have been surprisingly successful, and action against the Camorra quite encouraging. But the Sicilian Mafia are a hard nut to crack, and corruption is still widespread. These are the most worrying features of the Italian scene (paragraphs 22 and 23).

5. We need to take Italy more seriously, and to work harder at the Italian market for our exports in particular. Most Italians would welcome closer political and economic ties with Britain: the opportunities are there for us to take (paragraph 24).

Rome

4 August 1983

Sir

Having now spent five months in Italy, I send you these impressions of the country, its inhabitants and its political system. Although I have visited Italy on occasions in recent years, I have never lived here before, and I take as my point of departure the striking comparison between the Italy of 1983 and the Italy which I visited as a student in 1949 and 1950.

2. The Italy of those earlier years was a very different country. The nation had hardly recovered from the humiliation of military defeat and the dangers and privation of a hard-fought campaign which affected the population of the whole peninsula. The strong support which the Communists had won in some regions, such as Tuscany and Emilia-Romagna, had left a deep foreboding about the future: could Italy, a byword for corruption and disorganisation, resist the Communists' cynical and cool planning which had recently overwhelmed Czechoslovakia and threatened the stability of Western Europe? Poverty and disease were widespread, and specially inopportune beggars besieged the traveller at street corners. Meat was an expensive luxury for most Italians. To travel any distance meant a journey by train; the few autostradas built by Mussolini were narrow (two lanes) and crowded. In the cities it was the age of the Vespa, buzzing dangerously everywhere, leaving rubber on the tarmac as proof of a corner turned. All this made a powerful impression on a visitor from Britain, accustomed to the social cohesion and national discipline which we had accepted during the war and its aftermath. The steady grey purposefulness of our own existence was quite different from this colourful jostle, and the British visitor contrasted the eroded hills, back-breaking toil in fertile valley plots and the traditional skills of Italian artisans, with the sophisticated products of our heavy industries. We had just won a war against Italy which proved superiority of our men and morale. Not that we had anything against Italians, duped though they had been by that buffoon Mussolini: although how had they, supposedly the most politically sophisticated Europeans, allowed that to happen? The image in the mind was not the skill and bravery of the Italian frogmen and submariners who successfully attacked our capital ships in harbour at Alexandria, but of the demoralized and illiterate soldiers rounded up in their thousands by General Wavell's troops in the western desert. Italy was to be enjoyed for its art, scenery and sunshine, but it was not a serious country. Or so it seemed.

3. Returning thirty years later shows a very different country. The Italians like the Germans have had their economic miracle. The industries in the northern cities have multiplied in population and prosperity. Turin, the Fiat company town, has grown in twenty years by 400,000 to 1.1 million, adding to itself the population of a city as large as Bologna. Internal migration on a massive scale has shifted the population from south to north and from country to town. In 1950 some 40% of the workforce was employed in agriculture: it is about 12% now. In 1945 Italy produced only 2 million tons of steel, Britain 16 m.: by 1981 she produced half as much again, 24.7 m to our 15 m, a tribute to investment policies pursued without alteration for a generation, instead of the stop/go uncertainties in our own country where we argued for fifteen years over the ownership of the industry — thus missing the point at which profitable investments could be made. In car production too the Italians have caught up and passed the British: the cities are crowded with cars and heavy motorcycles: not many vespas now. In terms of prosperity, the statistics say (and they probably understate the case) that since 1958 Italian income per head has risen in the subsequent 25 years, by 144% (3.6% p.a.) in real terms, compared with a British figure of 58% (1.9% p.a.) over the same period. Italian society has also changed in another fundamental way: it is less overtly religious. Gone are the days when the streets were crowded with figures garbed in clerical black and the churches brimming with the devout of all ages. Italy now has legal abortion (stricter than our own) and a divorce law, and nothing has surprised me more than to see an official exhortation about birth control on the Italian equivalent of the BBC: discreetly done by a maternally figure, but a striking contrast to the overtly Catholic society of only a few years ago. The religious roots of Italian society are deep and strong, but it is hard to avoid the conclusion that religion is gradually declining, although the decline seems to have been less far-reaching than in her neighbour France.

4. It is worth reflecting on these profound social changes a moment longer. The gradual secularization of Italy is important because it makes Italy more like the rest of Western Europe. I do not suggest that Italy has abandoned the Church, rather that it is steadily losing its distinctly very Catholic character, which marked Italy (and I think Spain) among the nations of Europe. This is relevant to those Protestants of Northern Europe for whom the Catholic nature of Italian society represented a barrier to cooperation. Curiously parallel to this has been the profound change in Italian Communism: the party has abandoned its pro-Soviet basis in an effort to maintain its political appeal. The effect has been enormously important, determining the shape of politics on the left. This Communist move into the middle ground has also made life much more difficult for the Italian Socialist (compare the situation in France). It is interesting that both the PCI, and its confessional opposite the DC, have entered a phase of dignified and gradual decline.

5. Then there are the equally profound demographic changes. Earlier Italy had to export her population: now she has an almost stable number (56.6 million in 1981). There are many Italians living in Switzerland and Germany, but the age of massive permanent migration to Latin America and the United States has gone. (Meanwhile there is a growing flood of immigration into the country.) The population surplus has been eliminated by birth control and very numerous illegal abortions, although the birth rate remains much higher in the south than the north. Massive internal migration must surely also produce a more homogeneous population in time: although the Prefect of Milan assures me that there are few 'mixed marriages' between the Milanese and southern migrants, I do not see how these big movements of population can fail to bring Italians greater social unity in the end. What the internal migration does not seem to have diminished is the income gap between north and south: as the situation in the south improved, the north was advancing further ahead. Nor has the outlook of those remaining in the Mezzogiorno changed much, although all agree that in absolute terms the south is more prosperous than before. One wonders whether it will in the end be enough to satisfy the southerners.

6. In sum I believe that Italy is becoming gradually more socially homogeneous and Italians rather more alike. But the process is gradual and there is still a long way to go. The extent of regional differences is strongly felt by Italians themselves, who frequently remark on them, and refer to the fact that the country has only been united since 1870. It does not occur to them that modern Germany only achieved her unity at the same time: to my mind it is not the recent achievement of unity which matters, so much as the history which went before and its continuing current effect. Italy was subject to a degree of foreign rule, and geographical separation, not experienced in Germany: so Sicily is today further in spirit and habits of thought from Piedmont, than Bavaria from Schleswig Holstein. Nevertheless this basic aspect of the social scene is changing, under the impact of internal migration and television in particular. It is important that this process should continue, if the mistrust often felt between Italians of different regional origins is to be overcome. Meanwhile we need to be aware of the continuing importance of regional feeling and loyalties. This is not only a question of the relative economic weakness of the Mezzogiorno, important though that is. It is also a question of the style of life and social and moral attitudes. One house in every five in northern Italy is occupied by a single person: the situation in the south is very different, where large families are double the number of single person families instead of the other way round as in the north. We think of regional diversity as meaning social variety or economic contrast, but it also makes for political incoherence, and may account for the opaque quality of Italian political life which foreigners find so baffling.

7. Oddly, Italy is becoming European more certainly than it is overcoming its regional differences. The difference with the Italy of 1950 is very marked here. From Tuscany north the social habits and aspirations of Italians are very like those elsewhere in the European Community. We sometimes think of the EC as an institution designed around a Franco-German understanding with French national interests uppermost. But it has been of great importance in Italy and welcome here, providing a respectable European framework which the country and its citizens needed, as well as substantial economic benefits in recent years. Nor do we in Britain often think about the long-term social advantages of EC membership: in Italy these have been positive, and in accord with what Italians wanted for themselves.

8. Looked at in terms of these crude contrasts between 1950 and 1983 Italy has made enormous material progress of great benefit to her people. Italians are healthier, better fed and better educated. They suffer as do other Europeans from some of the disadvantages which accompany prosperity: a remarkable increase in drug addiction is one of the most worrying. But the achievements of Italy are perhaps more marked than those of any other state in postwar Europe: she has come further and faster than anyone else. It is worth spending some time enquiring how the Italians have obtained this result, how durable the edifice they have constructed, and what is likely to happen to it next. It would be presumptuous for a new comer to know the answers to all these questions but I will attempt to indicate what seem the main points.

9. The easiest part of the explanation is how they did it. Nobody doubts the Italian qualities of skill and industry where these are properly rewarded and permitted to flourish: and postwar Italian society has produced these conditions. Italians have been provided with political stability and a liberal attitude to trade in an increasingly prosperous world, in which they have deployed their talents. Italy has been restored to respectable international society as members of the EC and NATO, always cultivating her close friendship with the USA, and developing effective links with the Third World. The settlement of the Trieste dispute with Yugoslavia, and the calming of the Alto Adige, have removed the only serious directly political problems liable to affect relations with her neighbours. Until the oil price crisis of 1973/74 they were also able to draw on abundant supplies of cheap energy, from indigenous sources of natural gas and the international market. The Italian lack of a domestic energy source had greatly handicapped industry before 1945, and in the postwar period few states in the world have made better use of cheap energy than the Italians. Italy has also benefited from a stable institutional framework: after the close referendum on the monarchy in 1946, the Republic has not been a controversial issue for Italian citizens. With a strong domestic market and a steady demand for Italian goods abroad, it is not surprising that the country has enjoyed a period of continuous prosperity, or that hard work has been financially rewarding for its citizens. The durability of this state of affairs is more open to question.

10. There are substantial reasons for worry about the economic condition of the country. The main problems are inflation, the Government deficit, and the external account. Italian inflation has persistently been at a higher level than in the other member states of the EC. Until quite recently most Italians were not unduly perturbed by this, since it was widely regarded as a necessary evil which accompanied economic growth, as in Latin America. But latterly it has become more generally understood that the high rate of inflation was tending to accelerate, and that if some of the causes (such as rising energy costs) could not be readily controlled, others (notably the Government deficit and the *-ala mobile* system of wage indexation) could be tackled directly. The agreement reached by the Minister of Labour, Scotti, earlier this year with employers and unions to modify

the indexation system was an important first sign that the dangers of inflation are recognised, and an initial step along the difficult road we have been successfully travelling ourselves. The Government deficit has also shown signs of growing out of control, the CGBR for 1983 now being expected to reach the very high figure of 17% of GNP. The problem here is as much about cutting expenditure as of increasing taxes. Signor Fanfani's last government made an effort to contain the growth of CGBR, but the political agreement required to execute such a policy collapsed with Signor Craxi withdrawing the support of the Socialist Party for the Coalition. There as yet no sign of a really determined effort to prune payrolls in the overmanned industries of the large state-owned sector. The size of the deficit meanwhile requires the sale of large amounts of Government paper with very expensive yields. The deficit on the balance of payments is less immediately worrying since the outturn in 1983 is (I am assured by Governor Ciampi of the Bank of Italy) well within the country's capacity to borrow abroad. But this is not a comfortable situation: at this stage of the cycle Italy should be in surplus, and in the longer term the country is saddled with a very large bill for imported energy, all payable in dollars. Thus the Italian skill in converting cheap energy into profitable industry in the 1950s and 1960s has turned into a permanent headache: lacking any energy policy worth the name, Italy seems condemned to be a permanent struggle to pay for her energy imports, which even at prices then ruling took 37.7% of her export earnings last year.

11. The political stability of the country also seems less assured than a year or so ago. Many foreign observers have regarded Italy as inherently unstable, since they are concerned by the frequent change in Italian governments and the large vote of the Communist party. Italians have patiently explained that the change of personality in successive governments implied no change of political line, since each new Administration was essentially the same kind of coalition, reshuffled to accommodate changes in the national and parliamentary political balance. It was also argued quite convincingly that the Communists had been obliged to modify their policies substantially to retain their share of the vote. But there is another underlying reason which seems to have more weight as a sign of the Italian political difficulty. For over thirty years there have been two large political parties, commanding between them more than 60% of the vote, with the other smaller parties generally holding the balance in the legislature. This situation has been tolerable, if infinitely time-consuming in requiring great pains to hold the coalition between the Christian Democrats and their partners together. The effect of the vote of June 26 1983 was dramatic because the Christian Democrats' vote dropped by six full percentage points. The margin between the CD and the PCI has never been so small, and this has quite substantially altered the balance of the coalition partnership, and enlarged the room for manoeuvre of the smaller parties. There is still no basic reason, in terms of political arithmetic and national interest, why one or more coalitions should not again be put together in this Parliament. But they will be more painful to assemble, even more tedious to hold united, and much more difficult to replace than in the past, because of the changes in representation in Parliament.

12. And these are added difficulties when the policies of the next Italian Government are considered. Many people will agree on the kind of measures now required: severe restraints on Government spending, the pruning of wasteful official payrolls, and the elimination of fraud in the social security system. The use of disability pensions (to provide subsistence for the unemployed) and the chaotic rules for retirement benefit (the so-called *pensioni baby* whereby a thirty year old can in some circumstances receive a pension for life) are abuses on a large scale, tolerated partly as a state subsidy to the poor south. But it will be extremely difficult to sustain political support in Parliament for tough measures of this kind, particularly because of the ideological division between the PSI, who

want to see a generous programme of investment in the large state-owned sector, and the Republicans and some Christian democrats, who want to balance the books. In more prosperous times the change in the political balance would matter less: it has come at a very inconvenient moment.

13. But whatever the fortunes of the two main parties, the almost equal support for them in voting terms has produced a situation where a further shift could upset the political assumptions of the last thirty years or so. This is not so much an argument about voting systems, or the relative merits of the De Mita or Andreotti line for the DC, rather a reflection of the facts that the Italian nation cannot agree to entrust the Government to a single party, that it has contrived to avoid a breakdown of the political system for a generation in spite of that disagreement, and that it is finding it increasingly difficult to do so. A nation which votes 3:3:4 is not going to produce a stable result, particularly when the 4 is divided into numerous fractions. This is the essential political arithmetic in Italy today which would probably not be much affected by a different electoral system. As I have suggested in my despatch of 14 July, there is little prospect of such a change in any event.

14. If this analysis is correct, the underlying problem for the leaders of the two main political parties remains what they should do to enlarge their share of the vote: a problem made more urgent by their depressing results in the last election. Should they adopt clearer, more distinctive policies, as De Mita tried to do for the DC: or should they stick to their traditional, established attitudes (in the belief that the Italians themselves prefer the present fragile equilibrium). I believe that for different reasons both large parties will prefer the second option, because it would in practice be difficult for either party to change direction abruptly (and Italian politicians are in general cautious, much more so than our own – an interesting case of image reversal), and also because I think the national preference would be for a continuation of the present system.

15. In declining to give any party a working majority, the Italians seem to express a collective distrust of what their political leaders might do if given a freer hand. Italians want most of all to retain their individual freedoms, and would much dislike the enlargement of the authority of the State to interfere. So supposing that the current system is continued, as seems to be the general wish: would it be possible for further coalitions between Christian Democrats and lay parties in this Parliament to pursue viable policies to deal with the economic problems now facing the country? In recent weeks I have put this question to politicians in Rome, and to prefects and mayors in the provinces: can Italy hope to cope with her difficulties if she continues to follow the consensus politics approach? It is interesting that nearly everyone seems to think there is no other way. Perhaps events will force a change, but I am sure that there is a tenacious instinct to preserve the consensus if it can possibly be contrived, in spite of all the difficulties. Nevertheless I cannot help seeing this fundamental dilemma facing the country: the need for the state to impose its authority more efficiently (to raise revenue, or to deal with organized crime, for example), and the reluctance of the citizens to confer the state with the authority required.

16. It is at this point that the newly arrived Ambassador begins to lose confidence in his own reasoning. Equivalent data for the economy would certainly spell disaster in our own society: desperate remedies would be required, and a new Chancellor of the Exchequer, perhaps, to accompany them. Yet Italy has lived with a very high inflation rate for years, and seems to thrive on it. Economic crises have come and gone – generally a series of drastic measures, including such internationally unpopular steps as import

deposits, have managed to restore the position in what seemed the nick of time. Meanwhile the level of prosperity is visibly very high: you begin to think that the country is living beyond its means, or as the Italians would say, above its possibilities. Things are indeed not what they seem, as is apparent when you look below the surface.

17. First it is agreed by all that Italy is richer, a good deal richer than the statistics allow. There are deficiencies in all national systems of statistics: even in our own, a paragon by international standards, we have had doubts about the accuracy of some of the most important series such as the level of exports, and the Italian figures are a great deal less perfect. It has been noted (for example) that although the Naples region is the largest national producer of gloves, no exports of gloves are recorded from the port of Naples. More serious, the annual comparison made by the financial authorities of the profitability of companies, as recorded in their tax returns, and as reported to their own shareholders, regularly reveals that the former is much lower than the latter. It is common knowledge that many companies often illegally maintain accounts in foreign currencies abroad, and that a surprising number of individuals do the same. I recall that when Chancellor of the Exchequer you hazarded a figure under 10% of the amount of our national income which goes unrecorded in what is here called the 'submerged' economy. You may therefore be interested to know that Signor Giovanni Agnelli of Fiat estimated in a recent article in *le Monde* that Italian GNP is some 20 to 30 per cent higher than that recorded in the national statistics, for this reason. It is also universally recognized that there are many kinds of transaction which take place in cash and thus escape their proper contribution to the tax system: in addition to repairs by jobbing plumbers and electricians, many payments to doctors and lawyers are widely suspected of falling into the same category.

18. So perhaps appearances are deceptive. Italy is not living beyond her means: she is richer than you think. It is only the Italian state which is poor. That is bad news for the financial authorities, who are rightly concerned by the low tax base, but we should not pay quite so much attention to the 17% of GNP which the CGBR appears to represent.

19. Also, the economy has a greater underlying strength than you would suppose from reading the accounts, ranging from gloomy to appalling, of the big state holding companies like ENI or Finsider. The real strength of the Italian economy does not lie in these groups alone, any more than US Steel is typical of American economic strength or British Shipbuilders of our own. Italy beat the late Dr Schumacher to it in thinking small before that became fashionable: it has always been one of the Italian styles. Innumerable small manufacturing companies buy in components and sub-assemblies made by workers in sheds at home. The workers employed, directly or not, often retain an agricultural base on a smallholding to which they can return if industrial demand falls off. So the size of the factory is kept down: reliance on expensive bank finances kept to a minimum, and long-term commitments to expensive labour contracts at union rates avoided. There are of course tax advantages too. Establishments of this size are now everywhere – you see them on the road from Siena to Poggibonsi, or (I am old) from Bari to Taranto. The extent of this kind of enterprise is now catching the attention of some American and French economists, who point out that their operations are generally profitable and flexible: and that perhaps other countries could learn from the Italian example. Of course these smaller enterprises do depend on the prosperity of the larger concerns to whom they sell many of their products, but the conclusion can still be drawn that this more prosperous side of the manufacturing economy is not fully reflected in the statistics.

20. More fundamentally, to reach any fair conclusions about the dangers facing Italy you have to make a judgement about the nature of Italian society. I am sure that many

Americans are much concerned about the continuing strength of the Italian Communists, and that many Americans also tend to see the potential takeover of Italy by the Communists in apocalyptic terms. Of course the future use of political power by the PCI is uncertain but the dangers should not be exaggerated. Nobody knows what PCI participation in a Government, or government reliance on PCI support in Parliament (two different propositions) would mean. The last time the latter was tried (in 1976 - 1979) was the PCI which was the loser. I would myself be cautious in predicting the outcome. The behaviour of the Communists in such a situation cannot be established in advance (we can try to make an analysis, but this is not scientific: business however scholarly the product is dressed up to appear). Also I recall the predictions of the old China hands in 1950 who said that China and Communism, like chalk and cheese, would not mix: as a young Italian hand I feel one can never be sure about the next revolution, which will depend on tomorrow's chemistry - the uncertain flashpoint of an unknown compound. But I do venture to say that a great deal will have to happen to Italian society, as I observe it, before it takes some completely different form, and that there is no reason to expect a rapid change in basic social and political attitudes at present. Rather the reverse. The Italians, including most who support the PCI, are I believe genuinely attached to democracy and their own independence of mind, which is such a feature of the Italian variety of democracy. They believe in the Alliance with the U.S. and NATO, and their membership of the EC: these attachments will not be changed overnight. Over 65% of the nation voted for parties opposed to Communism (even the Italian type) at the last election. I have admitted above to my concern at the Italian economic problem, and there are still serious problems making allowances for the broader factors I have indicated. But important though pocket calculators are, hearts and minds still matter: and if Italy is richer than you think, she is also more politically stable than appearances suggest. Further: if the PCI threat does reemerge, that would do more to strengthen the DC than any other factor.

21. I shall conclude these first impressions with a comment on three separate but connected anxieties: the Red Brigades, the Mafia and corruption. These are the aspects of Italy which worry me most.

22. Italy has enjoyed a success in her operations against the Red Brigades of which few would have believed her capable. The lowest point was the murder of Moro. The so-called *pentiti* law, which allows a suspect's confession to be used for plea bargaining, is generally regarded as the instrument of success. Of course this threat may return and I note with concern that the level of unemployment among the young is appallingly high: in January 1983, 74.8% of Italy's 2.2 million unemployed were aged between 14 and 29. Nevertheless the breaking of the Dozier case was a tonic for the authorities, and although there have been one or two Red Brigades operations in Rome recently these seem somewhat amateurish by earlier, more grisly standards.

23. There is also a fresh sign of hope in the recent massive arrests of suspected members of one of the two main Camorra groups in Naples. There has been no comparable success against the Mafia in Sicily, although reports now appearing in the press suggest that the power given to the authorities to investigate bank transfers may yield some helpful clues. There are of course important differences between Red Brigades operations, which are direct assaults against society and those of the Mafia and Camorra, who traditionally have operated within it. But this traditional distinction seems immaterial when you consider the extensive scale of Mafia violence. 150 people were killed on the streets of Palermo last year, ie more than in all Northern Ireland in the same period, and even if most of these killings are of Mafiosi by other Mafiosi, the result is a dreadful blow to the

authority of the state. The underlying reason appears to be the struggle to control the enormous wealth passing through the hands of the international drug smugglers in Sicily; there are reports that the sums involved are so large that they are proving difficult to recycle into legal activities. The effect of all this on Sicilian society must be profound. It is right to be worried about the Camorra and the Mafia, and if the authorities are able to follow up their recent successes, the state would benefit greatly. I cannot say that I have much confidence in the ability of the authorities to limit other more traditional forms of corruption: tax fiddles, bribes, and the award of contracts to political cronies. Such happenings are regularly uncovered and subjected to formal enquiry, and major scandals such as P2 and Calvi seem to have been a particular feature of the recent past. A typical long-running case concerns the avoidance of IVA (VAT) on wholesale fuel oil deals (apparently involving a high church official, among others). Transactions of this kind do not portray Italy in a favourable light, and appear even worse when you realise that many Italians see them as not particularly unusual. It is a depressing aspect of Italian individualism that the individual regards himself as separate from the state: theft from the state is not commonly seen as stealing from your own pocket, as is still the case to a greater extent in other European democracies. The pervasiveness of this attitude in Italy is worrying, and I hope that the growing Europeanization of Italy will come to modify it, although one must note that many of the major financial scandals are rooted in northern Italy.

24. I have not sought in this despatch to send you any detailed recommendations on HM Government's policy towards Italy, since that is the subject of a separate correspondence with the Permanent Under-Secretary at the Department. But these impressions would not be complete without some reference to the views recorded there. Briefly, it is my impression that the tremendous changes which have been taking place in Italy have been imperfectly understood in Britain. The generation now leading our country, whether in politics, the industrial world or elsewhere, tends to think of Italy as the country of the immediate postwar years described at the beginning of this despatch. We also tend to equate ourselves as the equivalent of France or the Federal German Republic, countries with populations of much the same size as our own but now of course wealthier than Britain. There are other reasons including distance, language, familiarity. We do need to make an effort to understand Italy better, to see more clearly her considerable economic achievements (rightly recognised by her inclusion in the Economic Summit meetings), and to do more business here - particularly political and commercial business. We do not gain in the Italian market the share we have won in France and Germany, and I see no reason why a similar proportion should not be achieved here. We need in other words to pay more attention to Italy in our thinking as well as in our acts. I believe that we would find it rewarding to do so; and that most Italians would welcome the opportunity. There is a real opportunity, and if we take it we may be surprised by the Italian response. Hence the title I have given to this despatch.

25. I am sending copies of this despatch to HM Ambassadors to all EC and NATO countries, to the European Communities, to the Holy See, at Belgrade and Moscow, and to Consular representatives in Italy.

I am, Sir,
Yours faithfully,

Brigdes



ITALIA VOSTRA

SUMMARY

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2. These achievements result from political stability at home, commitment to free trade, and access to prosperous markets. Current economic prospects are less bright: dependence on expensive, imported energy a particular burden (paragraphs 9 and 10).
3. Political stability also less assured after the June elections. Narrow margin between Christian Democrats and Communists alters the political balance, and makes the formation of Governments more difficult. Future policies of the two main parties is in some doubt (paragraphs 11 to 15). But Italy is more prosperous than the statistics show (paragraphs 17 to 19), and society more stable than it appears (paragraphs 20 and 21).
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BRITISH EMBASSY,
ROME.

4 August 1983

The Rt Hon Sir Geoffrey Howe, QC, MP
LONDON

Sir,

ITALIA VOSTRA

1. Having now spent five months in Italy, I send you these impressions of the country, its inhabitants and its political system. Although I have visited Italy on occasions in recent years, I have never lived here before, and I take as my point of departure the striking comparison between the Italy of 1983 and the Italy which I visited as a student in 1949 and 1950.
2. The Italy of those earlier years was a very different country. The nation had hardly recovered from the humiliation of military defeat and the dangers and privation of a hard-fought campaign which affected the population of the whole peninsula. The strong support which the Communists had won in some regions, such as Tuscany and Emilia-Romagna, had left a deep foreboding about the future: could Italy, a byword for corruption and disorganisation, resist the Communists' cynical and cool planning which had recently overwhelmed Czechoslovakia and threatened the stability of Western Europe? Poverty and disease were widespread, and specially importunate beggars besieged the traveller at street corners. Meat was an expensive luxury for most Italians. To travel any distance meant a journey by train; the few autostradas built by Mussolini were narrow (two lanes) and crowded. In the cities it was the age of the Vespa, buzzing
/dangerously



dangerously everywhere, leaving rubber on the tarmac as proof of a corner turned. All this made a powerful impression on a visitor from Britain, accustomed to the social cohesion and national discipline which we had accepted during the war and its aftermath. The steady grey purposefulness of our own existence was quite different from this colourful jostle, and the British visitor contrasted the eroded hills, back-breaking toil in fertile valley plots and the traditional skills of Italian artisans, with the sophisticated products of our heavy industries. We had just won a war against Italy which proved superiority of our men and morale. Not that we had anything against Italians, duped though they had been by that buffoon Mussolini: although how had they, supposedly the most politically sophisticated Europeans, allowed that to happen? The image in the mind was not the skill and bravery of the Italian frogmen and submariners who successfully attacked our capital ships in harbour at Alexandria, but of the demoralized and illiterate soldiers rounded up in their thousands by General Wavell's troops in the western desert. Italy was to be enjoyed for its art, scenery and sunshine, but it was not a serious country. Or so it seemed.

3. Returning thirty years later shows a very different country. The Italians like the Germans have ^{had} their economic miracle. The industries in the northern cities have multiplied in population and prosperity. Turin, the Fiat company town, has grown in twenty years by 400,000 to 1.1 million, adding to itself the population of a city as large as Bologna. Internal migration on a massive scale has shifted the population from south to north and from country to town. In 1950 some 40% of the workforce was employed in agriculture: it is about 12% now. In 1945 Italy produced only 2 million tons of steel, Britain 16 m: by 1981 she produced half as much again, 24.7 m to our 15 m, a tribute to investment policies pursued

/without



without alteration for a generation, instead of the stop/go uncertainties in our own country where we argued for fifteen years over the ownership of the industry - thus missing the point at which profitable investments could be made. In car production too the Italians have caught up and passed the British; the cities are crowded with cars and heavy motorcycles: not many vespas now. In terms of prosperity, the statistics say (and they probably understate the case) that since 1958 Italian income per head has risen in the subsequent 25 years, by 144% (3.6% p.a.) in real terms, compared with a British figure of 58% (1.9% p.a.) over the same period.

Italian society has also changed in another fundamental way: it is less overtly religious. Gone are the days when the streets were crowded with figures garbed in clerical black and the churches brimming with the devout of all ages. Italy now has legal abortion (stricter than our own) and a divorce law, and nothing has surprised me more than to see an official exhortation about birth control on the Italian equivalent of the BBC: discreetly done by a matronly figure, but a striking contrast to the overtly Catholic society of only a few years ago. The religious roots of Italian society are deep and strong, but it is hard to avoid the conclusion that religion is gradually declining, although the decline seems to have been less far-reaching than in her neighbour France.

4. It is worth reflecting on these profound social changes a moment longer. The gradual secularization of Italy is important because it makes Italy more like the rest of Western Europe. I do not suggest that Italy has abandoned the church, rather that it is steadily losing its distinctly very Catholic character, which marked Italy (and I think Spain) among the nations of Europe. This is relevant to those Protestants of Northern Europe for whom the Catholic

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Catholic nature of Italian society represented a barrier to cooperation. Curiously parallel to this has been the profound change in Italian Communism: the party has abandoned its pro-Soviet basis in an effort to maintain its political appeal. The effect has been enormously important, determining the shape of politics on the left. This Communist move into the middle ground has also made life much more difficult for the Italian Socialist^S(compare the situation in France). It is interesting that both the PCI, and its confessional opposite the DC, have entered a phase of dignified and gradual decline.

5. Then there are the equally profound demographic changes. Earlier Italy had to export her population: now she has an almost stable number (56.6 million in 1981). There are many Italians living in Switzerland and Germany, but the age of massive permanent migration to Latin America and the United States has gone. (Meanwhile there is a growing flood of immigration into the country). The population surplus has been eliminated by birth control and very numerous illegal abortions, although the birth rate remains much higher in the south than the north. Massive internal migration must surely also produce a more homogeneous population in time: although the Prefect of Milan assures me that there are few 'mixed marriages' between the Milanese and southern migrants, I do not see how these big movements of population can fail to bring Italians

/greater



✓ greater social unity in the end. What the internal migration does not seem to have diminished is the income gap between north and south: as the situation in the south improved, the north was advancing further ahead. Nor has the outlook of those remaining in the Mezzogiorno changed much, although all agree that in absolute terms the south is more prosperous than before. One wonders whether it will in the end be enough to satisfy the southerners.

6. In sum I believe that Italy is becoming gradually more socially homogeneous and Italians rather more alike. But the process is gradual and there is still a long way to go. The extent of regional differences is strongly felt by Italians themselves, who frequently remark on them, and refer to the fact that the country has only been united since 1870. It does not occur to them that modern Germany only achieved her unity at the same time: to my mind it is not the recent achievement of unity which matters, so much as the history which went before and its continuing current effect. Italy was subject to a degree of foreign rule, and geographical separation, not experienced in Germany: so Sicily is today further in spirit and habits of thought from Piedmont, than Bavaria from Schleswig Holstein. Nevertheless this basic aspect of the social scene is changing, under the impact of internal migration and television in particular. It is important that this process should continue, if the mistrust often felt between Italians of different regional origins is to be overcome.

/Meanwhile



Meanwhile we need to be aware of the continuing importance of regional feeling and loyalties. This is not only a question of the relative economic weakness of the Mezzogiorno, important though that is. It is also a question of the style of life and social and moral attitudes. One house in every five in northern Italy is occupied by a single person: the situation in the south is very different, where large families are double the number of single person families instead of the other way round as in the north. We think of regional diversity as meaning social variety or economic contrast, but it also makes for political incoherence, and may account for the opaque quality of Italian political life which foreigners find so baffling.

7. Oddly, Italy is becoming European more certainly than it is overcoming its regional differences. The difference with the Italy of 1950 is very marked here. From Tuscany north the social habits and aspirations of Italians are very like those elsewhere in the European Community. We sometimes think of the EC as an institution designed around a Franco-German understanding with French national interests uppermost. But it has been of great importance in Italy and welcome here, providing a respectable European framework which the country and its citizens needed, as well as substantial economic benefits in recent years. Nor do we in Britain often think about the long-term social advantages

/of



of EC membership: in Italy these have been positive, and in accord with what Italians wanted for themselves.

8. Looked at in terms of these crude contrasts between 1950 and 1983 Italy has made enormous material progress of great benefit to her people. Italians are healthier, better fed and better educated. They suffer as do other Europeans from some of the disadvantages which accompany prosperity: a remarkable increase in drug addiction is one of the most worrying. But the achievements of Italy are perhaps more marked than those of any other state in postwar Europe: she has come further and faster than anyone else. It is worth spending some time enquiring how the Italians have obtained this result, how durable the edifice they have constructed, and what is likely to happen to it next. It would be presumptuous for a newcomer to know the answers to all these questions but I will attempt to indicate what seem the main points.

9. The easiest part of the explanation is how they did it. Nobody doubts the Italian qualities of skill and industry where these are properly rewarded and permitted to flourish; and postwar Italian society has produced those conditions. Italians have been provided with political stability and a liberal attitude to trade in an increasingly prosperous world, in which they have deployed their talents. Italy has been restored to respectable international society as members of the EC and NATO, always
/cultivating



cultivating her close friendship with the USA, and developing effective links with the third world. The settlement of the Trieste dispute with Yugoslavia, and the calming of the Alto Adige, have removed the only serious directly political problems liable to affect relations with her neighbours. Until the oil price crisis of 1973/74 they were also able to draw on abundant supplies of cheap energy, from indigenous sources of natural gas and the international market. The Italian lack of a domestic energy source had greatly handicapped industry before 1945, and in the postwar period few states in the world have made better use of cheap energy than the Italians. Italy has also benefited from a stable institutional framework: after the close referendum on the monarchy in 1946, the Republic has not been a controversial issue for Italian citizens. With a strong domestic market and a steady demand for Italian goods abroad, it is not surprising that the country has enjoyed a period of continuous prosperity, or that hard work has been financially rewarding for its citizens. The durability of this state of affairs is more open to question.

10. There are substantial reasons for worry about the economic condition of the country. The main problems are inflation, the Government deficit, and the external account. Italian inflation has persistently been at a higher level than in the other member states of the EC. Until quite recently most Italians were not unduly perturbed by this, since it was widely regarded as a necessary evil which

/accompanied



accompanied economic growth, as in Latin America. But latterly it has become more generally understood that the high rate of inflation was tending to accelerate, and that if some of the causes (such as rising energy costs) could not be readily controlled, others (notably the Government deficit and the scala mobile system of wage indexation) could be tackled directly. The agreement reached by the Minister of Labour, Scotti, earlier this year with employers and unions to modify the indexation system was an important first sign that the dangers of inflation are recognised, and an initial step along the difficult road we have been successfully travelling ourselves. The Government deficit has also shown signs of growing out of control, the CGBR for 1983 now being expected to reach the very high figure of 17% of GNP. The problem here is as much about cutting expenditure as of increasing taxes. Signor Fanfani's last government made an effort to contain the growth of CGBR, but the political agreement required to execute such a policy collapsed when Signor Craxi withdrew the support of the Socialist Party for the Coalition. There as yet no sign of a really determined effort to prune payrolls in the overmanned industries of the large state-owned sector. The size of the deficit meanwhile requires the sale of large amounts of Government paper with very expensive yields. The deficit on the balance of payments is less immediately worrying since the outturn in 1983 is

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(I am assured by Governor Ciampi of the Bank of Italy) well within the country's capacity to borrow abroad. But this is not a comfortable situation: at this stage of the cycle Italy should be in surplus, and in the longer term the country is saddled with a very large bill for imported energy, all payable in dollars. Thus the Italian skill in converting cheap energy into profitable industry in the 1950s and 1960s has turned into a permanent headache: lacking any energy policy worth the name, Italy seems condemned to a permanent struggle to pay for her energy imports, which even at prices then ruling took 37.7% of her export earnings last year.

11. The political stability of the country also seems less assured than a year or so ago. Many foreign observers have regarded Italy as inherently unstable, since they are concerned by the frequent change in Italian governments and the large vote of the Communist party. Italians have patiently explained that the change of personality in successive governments implied no change of political line, since each new Administration was essentially the same kind of coalition, reshuffled to accommodate changes in the national and parliamentary political balance. It was also argued quite convincingly that the Communists had been obliged to modify their policies substantially to retain their share of the vote. But there is another underlying

/reason



reason which seems to have more weight as a sign of the Italian political difficulty. For over thirty years there have been two large political parties, commanding between them more than 60% of the vote, with the other smaller parties generally holding the balance in the legislature. This situation has been tolerable, if infinitely time-consuming in requiring great pains to hold the coalition between the Christian Democrats and their partners together. The effect of the vote of June 26 1983 was dramatic because the Christian Democrats' vote dropped by six full percentage points. The margin between the CD and the PCI has never been so small, and this has quite substantially altered the balance of the coalition partnership, and enlarged the room for manoeuvre of the smaller parties.

There is still no basic reason, in terms of political arithmetic and national interest, why one or more coalitions should not again be put together in this Parliament. But they will be more painful to assemble, even more tedious to hold united, and much more difficult to replace than in the past, because of the changes in representation in Parliament.

12. And these are added difficulties when the policies of the next Italian Government are considered. Many people will agree on the kind of measures now required: severe restraints on Government spending, the pruning of wasteful official payrolls, and the elimination of fraud in the

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social security system. The use of disability pensions (to provide subsistence for the unemployed) and the chaotic rules for retirement benefit (the so-called pensioni baby whereby a thirty year old can in some circumstances receive a pension for life) are abuses on a large scale, tolerated partly as a state subsidy to the poor south. But it will be extremely difficult to sustain political support in Parliament for tough measures of this kind, particularly because of the ideological division between the PSI, who want to see a generous programme of investment in the large state-owned sector, and the Republicans and some Christian Democrats, who want to balance the books. In more prosperous times the change in the political balance would matter less: it has come at a very inconvenient moment.

13. But whatever the fortunes of the two main parties, the almost equal support for them in voting terms has produced a situation where a further shift could upset the political assumptions of the last ^{thirty} years or so. This is not so much an argument about voting systems, or the relative merits of the De Mita or Andreotti line for the DC, rather a reflection of the facts that the Italian nation cannot agree to entrust the Government to a single party, that it has contrived to avoid a breakdown of the political system for a generation in spite of that disagreement, and that it is finding it increasingly difficult to do so. A nation which votes 3:3:4 is not going to produce a stable result, particularly when the 4 is divided into numerous fractions. This is the essential political arithmetic in Italy today which would probably not be much affected by a different electoral system. As I have suggested in my despatch of 14 July, there is little prospect of such a change in any event.

14. If this analysis is correct, the underlying problem

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for the leaders of the two main political parties remains what they should do to enlarge their share of the vote: a problem made more urgent by their depressing results in the last election. Should they adopt clearer, more distinctive policies, as De Mita tried to do for the DC; or should they stick to their traditional, established attitudes (in the belief that the Italians themselves prefer the present fragile equilibrium)? I believe that for different reasons both large parties will prefer the second option, because it would in practice be difficult for either party to change direction abruptly (and Italian politicians are in general cautious, much more so than our own - an interesting case of image reversal), and also because I think the national preference would be for a continuation of the present system.

15. In declining to give any party a working majority, the Italians seem to express a collective distrust of what their political leaders might do if given a freer hand. Italians want most of all to retain their individual freedoms, and would much dislike the enlargement of the authority of the State to interfere. So supposing that the current system is continued, as seems to be the general wish: would it be possible for further coalitions between Christian Democrats and lay parties in this Parliament to pursue viable policies to deal with the economic problems now facing the country? In recent weeks I have put this question to politicians in Rome, and to prefects and mayors in the provinces: can Italy hope to cope with her difficulties if she continues to follow the consensus politics approach? It is interesting that nearly everyone seems to think there is no other way. Perhaps events will force a change, but I am sure that there is a tenacious instinct to preserve the consensus if it can possibly be contrived, in spite of all the difficulties.

/Nevertheless



Nevertheless I cannot help seeing this fundamental dilemma facing the country: the need for the state to impose its authority more efficiently (to raise revenue, or to deal with organized crime, for example), and the reluctance of the citizens to confer the state with the authority required.

16. It is at this point that the newly arrived Ambassador begins to lose confidence in his own reasoning. Equivalent data for the economy would certainly spell disaster in our own society: desperate remedies would be required, and a new Chancellor of the Exchequer, perhaps, to accompany them. Yet Italy has lived with a very high inflation rate for years, and seems to thrive on it. Economic crises have come and gone - generally a series of drastic measures, including such internationally unpopular steps as import deposits, have managed to restore the position in what seemed the nick of time. Meanwhile the level of prosperity is visibly very high: you begin to think that the country is living beyond its means, or as the Italians would say, above its possibilities. Things are indeed not what they seem, as is apparent when you look below the surface.

17. First it is agreed by all that Italy is richer, a good deal richer than the statistics allow. There are deficiencies in all national systems of statistics: even in our own, a paragon by international standards, we have had doubts about the accuracy of some of the most important series such as the level of exports, and the Italian figures are a great deal less perfect. It has been noted (for example) that although the Naples region is the largest national producer of gloves, no exports of gloves are recorded from the port of Naples. More serious, the annual comparison made by the financial authorities of the profitability of companies, as recorded in their tax returns, and as reported to their own shareholders, regularly reveals that

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the former is much lower than the latter. It is common knowledge that many companies often illegally maintain accounts in foreign currencies abroad, and that a surprising number of individuals do the same. I recall that when Chancellor of the Exchequer you hazarded a figure under 10% of the amount of our national income which goes unrecorded in what is here called the 'submerged' economy. You may therefore be interested to know that Signor Giovanni Agnelli of Fiat estimated in a recent article in Le Monde that Italian GNP is some 20 to 30 per cent higher than that recorded in the national statistics, for this reason. It is also universally recognized that there are many kinds of transaction which take place in cash and thus escape their proper contribution to the tax system: in addition to repairs by jobbing plumbers and electricians, many payments to doctors and lawyers are widely suspected of falling into the same category.

18. So perhaps appearances are deceptive. Italy is not living beyond her means: she is richer than you think. It is only the Italian state which is poor. That is bad news for the financial authorities, who are rightly concerned by the low tax base, but we should not pay quite so much attention to the 17% of GNP which the CGBR appears to represent.

19. Also, the economy has a greater underlying strength than you would suppose from reading the accounts, ranging from gloomy to appalling, of the big state holding companies like ENI or Finsider. The real strength of the Italian economy does not lie in these groups alone, any more than US Steel is typical of American economic strength or British Shipbuilders of our own. Italy beat the late Dr Schumacher to it in thinking small before that became

/fashionable



fashionable; it has always been one of the Italian styles. Innumerable small manufacturing companies buy in components and sub-assemblies made by workers in sheds at home. The workers employed, directly or not, often retain an agricultural base on a smallholding to which they can return if industrial demand falls off. So the size of the factory is kept down: reliance on expensive bank finances kept to a minimum, and long-term commitments to expensive labour contracts at union rates avoided. There are of course tax advantages too. Establishments of this size are now everywhere - you see them on the road from Siena to Poggibonsi, or (I am told) from Bari to Taranto. The extent of this kind of enterprise is now catching the attention of some American and French economists, who point out that their operations are generally profitable and flexible: and that perhaps other countries could learn from the Italian example. Of course these smaller enterprises do depend on the prosperity of the larger concerns to whom they sell many of their products, but the conclusion can still be drawn that this more prosperous side of the manufacturing economy is not fully reflected in the statistics.

20. More fundamentally, to reach any fair conclusions about the dangers facing Italy you have to make a judgement about the nature of Italian society. I am sure that many Americans are much concerned about the continuing strength of the Italian Communists, and that many Americans also tend to see the potential takeover of Italy by the Communists in apocalyptic terms. Of course the future use of political power by the PCI is uncertain but the dangers should not be exaggerated. Nobody knows what PCI participation in a Government, or government reliance on

/PCI



PCI support in Parliament (two different propositions) would mean. The last time the latter was tried (in 1976 - 1979) it was the PCI which was the loser. I would myself be cautious in predicting the outcome. The behaviour of the Communists in such a situation cannot be established in advance (we can try to make an analysis, but this is not scientific business however scholarly the product is dressed up to appear). Also I recall the predictions of the old China hands in 1950 who said that China and Communism, like chalk and cheese, would not mix: as a young Italian hand I feel one can never be sure about the next revolution, which will depend on tomorrow's chemistry - the uncertain flashpoint of an unknown compound. But I do venture to say that a great deal will have to happen to Italian society, as I observe it, before it takes some completely different form, and that there is no reason to expect a rapid change in basic social and political attitudes at present. Rather the reverse. The Italians, including most who support the PCI, are I believe genuinely attached to democracy and their own independence of mind, which is such a feature of the Italian variety of democracy. They believe in the Alliance with the U.S. and NATO, and their membership of the EC: these attachments will not be changed overnight. Over 65% of the nation voted for parties opposed to Communism (even the Italian type) at the last election. I have admitted above to my concern at the Italian economic problem, and there are still serious problems making allowances for the broader factors I have indicated. But important though pocket calculators are, hearts and minds still matter: and if Italy is richer than you think, she is also more politically stable than appearances suggest. Further: if the PCI threat does reemerge, that would do more to strengthen the DC than any other factor.

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21. I shall conclude these first impressions with a comment on three separate but connected anxieties: the Red Brigades, the Mafia and corruption. These are the aspects of Italy which worry me most.

22. Italy has enjoyed a success in her operations against the Red Brigades of which few would have believed her capable. The lowest point was the murder of Moro. The so-called pentiti law, which allows a suspect's confession to be used for plea bargaining, is generally regarded as the instrument of success. Of course this threat may return and I note with concern that the level of unemployment among the young is appallingly high: in January 1983, 74.8% of Italy's 2.2 million unemployed were aged between 14 and 29. Nevertheless the breaking of the Dozier case was a tonic for the authorities, and although there have been one or two Red Brigades operations in Rome recently these seem somewhat amateurish by earlier, more grisly standards.

23. There is also a fresh sign of hope in the recent massive arrests of suspected members of one of the two main Camorra groups in Naples. There has been no comparable success against the Mafia in Sicily, although reports now appearing in the press suggest that the power given to the authorities to investigate bank transfers may yield some helpful clues. There are of course important differences between Red Brigades operations, which are direct assaults against society, and those of the Mafia and Camorra, who traditionally have operated within it. But this traditional distinction seems immaterial when you consider the extensive scale of Mafia violence. 150 people were killed on the streets of Palermo last year, ie more than in all Northern Ireland in the same period, and even if most of these killings are of Mafiosi by other Mafiosi, the result is a dreadful blow to the authority of the state. The underlying reason appears

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to be the struggle to control the enormous wealth passing through the hands of the international drug smugglers in Sicily; there are reports that the sums involved are so large that they are proving difficult to recycle into legal activities. The effect of all this on Sicilian society must be profound. It is right to be worried about the Camorra and the Mafia, and if the authorities are able to follow up their recent successes, the state would benefit greatly. I cannot say that I have much confidence in the ability of the authorities to limit other more traditional forms of corruption: tax fiddles, bribes, and the award of contracts to political cronies. Such happenings are regularly uncovered and subjected to formal enquiry, and major scandals such as P2 and Calvi seem to have been a particular feature of the recent past. A typical long-running case concerns the avoidance of IVA (VAT) on wholesale fuel oil deals (apparently involving a high church official, among others). Transactions of this kind do not portray Italy in a favourable light, and appear even worse when you realise that many Italians see them as not particularly unusual. It is a depressing aspect of Italian individualism that the individual regards himself as separate from the state: theft from the state is not commonly seen as stealing from your own pocket, as is still the case to a greater extent in other European democracies. The pervasiveness of this attitude in Italy is worrying, and I hope that the growing Europeanization of Italy will come to modify it, although one must note that many of the major financial scandals are rooted in northern Italy.

24. I have not sought in this despatch to send you any detailed recommendations on HM Government's policy towards Italy, since that is the subject of a separate correspondence with the Permanent Under-Secretary at the Department. But these impressions would not be complete without some reference to the views recorded there. Briefly, it is my impression that the

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tremendous changes which have been taking place in Italy have been imperfectly understood in Britain. The generation now leading our country, whether in politics, the industrial world or elsewhere, tends to think of Italy as the country of the immediate postwar years described at the beginning of this despatch. We also tend to equate ourselves as the equivalent of France or the Federal German Republic, countries with populations of much the same size as our own but now of course wealthier than Britain. There are other reasons including distance, language, familiarity. We do need to make an effort to understand Italy better, to see more clearly her considerable economic achievements (rightly recognised by her inclusion in the Economic Summit meetings), and to do more business here - particularly political and commercial business. We do not gain in the Italian market the share we have won in France and Germany, and I see no reason why a similar proportion should not be achieved here. We need in other words to pay more attention to Italy in our thinking as well as in our acts. I believe that we would find it rewarding to do so: and that most Italians would welcome the opportunity. There is a real opportunity, and if we take it we may be surprised by the Italian response. Hence the title I have given to this despatch. 25. I am sending copies of this despatch to H.M. Ambassadors to all EC and NATO countries, to the European Communities, to the Holy See, at Belgrade and Moscow, and to Consular representatives in Italy.

I am Sir,

Yours faithfully,

Bridges

Bridges

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RorRpi

Mr Collins, WED

ITALIA VOSTRA

1. In his first impressions despatch Lord Bridges has given a comprehensive survey of Italian life which is particularly useful in that he is able to compare his personal experience of Italy in 1950 and 1983. He notes that there have been significant social and economic developments in Italy since the 1950s. (10)

2. The Ambassador comments that the influence of internal migration and television should produce a more homogeneous society. I am however not so sanguine about this aspect of Italian society. The differences between North and South are profound, and as the Ambassador notes, reinforced by geography and history. Even with the greater emphasis on Mediterranean questions brought about by enlargement the hub of the EC will remain Northern Europe, and Southern Italy will continue to suffer from its geographical distance from the centre. I wonder also if the Southerner who has migrated to the North really does integrate with the local population to any great extent, or whether he lives separately, perhaps sending some of his money back to the South. A feeling of separateness between the two parts of Italy persists, the one more European, the other more Mediterranean. Politics operate differently in North and South. The Northerner still tends to ^{problems} look down on the Southerner, and attitudes of mind are some of the hardest to overcome. The attitudes were reinforced when the two came into contact with each other in the aftermath of the 1980 earthquake.

3. The Ambassador also notes the significance of the increasing secularisation of Italian society. This is probably an inevitable consequence of the increased prosperity affecting the whole of Western Europe. The added significance of secularisation of society in Italy lies in the role which the Roman Catholic Church has traditionally played in Italian politics. It is not yet possible to assess to what extent the recent fall in the DC vote was attributable to the secularisation of Italy society but it was probably one of the factors affecting the vote.

4. The Ambassador notes the prosperity of Italian society, which comes as something of a surprise to the visitor aware of the gloom of the official statistics, would agree with the Ambassador's assessment of the underlying strength of the economy which has been run on a consistent but relatively free rein. In contrast to the inefficiency of the state run sector of the economy this policy has enabled the small, flexible business, often operating on a semi-official basis, to flourish. These small enterprises may indeed form a good model for the future of Western economies and, incidentally, provide a more satisfying,

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even if less remunerative, way of life for the workers in them. As the Ambassador notes, however, Italy needs to do something about State indebtedness and inflation. Italy could also improve its ^{domestic} economic position if it could improve its energy situation. The planned installation of Pressurised Water Reactors is proceeding slowly and, although there is no particular anti-nuclear lobby in Italy, is encountering the usual political difficulties which beset every decision in Italy. In the meantime Italy which pays for its oil in dollars suffers from the high rate of the dollar against the Lira.

5. As far as current political developments are concerned the Ambassador comments on the significance of the latest election results. It should perhaps be added that the long-term effect on the DC will be one of the most interesting consequences and one which cannot yet be assessed. If the party has been weakened permanently the beneficiaries would probably be the lay parties. As the Ambassador observes, the Italian attachment to consensus politics shows no sign of abating (and indeed the political system forces them into coalition politics) and the immobilism in their politics is therefore almost certain to continue. The lack of any alteration in power by different political parties is one of the main features differentiating Italian politics from those of its major European partners.

K. Colvin

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26 August 1983

Mr. Buckley R. P. P. (99)
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 30 AUG 1983
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Mr Collins, WED

ITALIA VOSTRA

1. Italy's current economic difficulties have been extensively discussed in recent correspondence with Michael Simpson-O'Leary. HMA Rome nonetheless raises some additional points of more general interest which you might wish to acknowledge.
2. There is no doubt that the Italian economy presents more difficulties for the economic analyst than those of most Western countries. Lord Bridges draws attention (para 3) to the rapid rise in Italy's relative prosperity since the war. Other comparisons over this time-scale are also interesting. Throughout the 1960s Italy grew faster than the average for the EC and expanded her foreign trade more rapidly, fuelled by large budget deficits. Despite this her inflation performance was reasonable and her balance of payments remained strong; unemployment was surprisingly high and investment below the EC average.
3. As the Ambassador makes clear, the first oil price shock marked something of a turning point. Growth has since fallen to about the EC average and the current account has moved into deficit, although its performance in 1977-79 was considerably better than in most EC countries. Italy's integration into world trade has continued although she has maintained relatively high budget deficits and inflation. Investment remains low but unemployment has risen less alarmingly than in many EC countries.
4. Forecasts are now uniformly gloomy for Italy's medium-term prospects; the reasons for this pessimism are well known. There are still few signs of a government capable of implementing policies which many in this country would consider appropriate. Yet Lord Bridges is not alone in doubting the relevance of conventional analysis (para 16). How have the Italians managed to perform so creditably, for instance in comparison to the United Kingdom, despite the apparent inappropriateness of their policies? Perhaps the submerged economy does hold the key to much of our difficulty; her unique industrial structure, based on medium and small-scale industry employing 'appropriate technologies', may explain Italy's ability to buck economic trends. Our lack of understanding means that it is particularly difficult to judge whether Italy can surprise us yet again, or whether the deterioration fundamental economic aggregates has advanced beyond the point of no return. The lacunae in our knowledge, not to mention the unreliability of Italian statistics, underline the importance which we attach to continued high quality economic reporting from Rome.



25 August 1983

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 WH 400 233 5262

cc:
 A Porter Esq, Bank of England
 J Graham Esq, HM Treasury

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Mr Collins
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HM AMBASSADOR ROME'S FIRST IMPRESSIONS OF ITALY - 90

1. Your minute of 16 August. — (AN) (92)
2. Italy's membership of the Alliance is only touched on briefly in para 20 of the despatch. There is no other mention of defence matters.
3. It is perhaps symptomatic of the difference between Italy and other basing countries that a despatch of this sort could have been written without any reference to INF.
4. Though the Italian defence effort has been one of the least impressive in NATO in GNP percentage terms, the robustness which they have shown over INF has been very valuable./given the uncertainties elsewhere on the southern flank (Spain, Greece/Turkey), they have a crucial role to play in the Alliance. Close links with the Italians, in the spirit of the Ambassador's plea that we need to do more business, can only reinforce their commitment to NATO and, hopefully, encourage them to play a greater role. Their participation in the SCG's 'QUINT' and the trilateral UK-FRG-Italian work of the HLG in connection with INF and shorter range nuclear forces (with our strong encouragement) are valuable in this connection.
5. In the defence procurement field, cooperation with the Italians, either bilaterally (EH101) or trilaterally with the Germans (Tornado) provide useful foundations on which to do more business.

foreover

G G Wetherell
Defence Department

17 August 1983

Lord Bridge is calling on Sir J. Bullard at 3 pm on 24 August.

FROM: J R Young, Head of WED
DATE: 17 August 1983

cc: Research Department

WED ✓
Sir J Bullard

bu 20 August

ITALIA VOSTRA: HM AMBASSADOR ROME'S FIRST IMPRESSIONS OF ITALY

1. I submit HM Ambassador Rome's fascinating and wide-ranging despatch conveying his first impressions of Italy. I recommend printing the despatch as a Diplomatic Report and attach the necessary forms for your signature. Advance copies are being sent to Private Offices, PS/PUS, interested departments and other government Departments for their views. I shall submit detailed comments and a full reply to HM Ambassador when these are received.

WED OK 11
24 AUG 1983
Loren

J R Young
J R Young

1. This is indeed a despatch of exceptional interest requiring a wide circulation and a considered letter back of thanks and comment.
2. As to action on policy, I should like to see the correspondence with the PUS to which the Ambassador refers.

JR 18/8

Sir J Bullard ✓ We agreed that WED should invite Lord Bridge to call in at the Office to discuss with the PUS or with me. As requested in your Para 2 above, I attach correspondence between the PUS and HMA Rome on Anglo-Italian relations.

ASCOLEONE
WED 18/8

Down.
 Pick up Dept.
 that has not replied.
 3/1/83

Reference

WRD 01411

RECEIVED

16 AUG 1983

DESK OF

INDEX

7/3

ERD - no comments
 TRED
 ESID - ~~minute~~ minute
 Defence Dept
 Research Dept - ~~commentary~~
 Information Dept
 Mr Devonshire, Exports to Europe Branch, DTI
 Mr Graham, HM Treasury
 Mr Porter, Bank of England

95

95

100

ITALIA VOSTRA: HM AMBASSADOR ROME'S FIRST
 IMPRESSIONS OF ITALY

1. I attach an advance copy of HMA Rome's
 despatch on his first impressions of Italy.
 I should be grateful for your comments by
 26 August.

Bu 30 August
 At 26/8

A S Collins
 Western European Dept
 W67 233 5150

16 August 1983

(91)

WED 01411

RECEIVED IN RE...

16 AUG 1983

DEPT OFFICE:

INDEX	PA
	DS

PS
PS/Lady Young
PS/Mr Whitney
PS/PUS

ITALIA VOSTRA: HM AMBASSADOR ROME'S FIRST
IMPRESSIONS OF ITALY

1. I attach an advance copy of HMA Rome's
despatch on his first impressions of Italy.
The despatch will be printed as a Diplomatic
Report.

(90)

A S Collins
Western European Dept
W67 233 5150

16 August 1983

Miss ~~Sand~~ Brearly.

1 Planning party usu
DR.

2 BU 26 ~~just~~ Ac

Mr Coffin

A long ~~letter~~ ^{report}, but
with printing as a DR. Pca. 16/8
Soft - short submission asking
Sir J. Bullard to approve
printing and promising detailed
comments later. Pca. sent
advance copies fairly widely
incl. DTI (incl Mr Colvin,
Research Dept) Mr Osborne
will take a copy home with
him on 26 August and
produce some comments over
the w/e.

15/8

PS. If you are on the 'phone
to Rome, please ask the
correlation of Italia Vostra



CONFIDENTIAL

NOTE FOR FILE

Miss Bridges.
 P1 photocopies of this
 memo to include
 relevant files

At 25/8

UK/ITALY

1. Lord Bridges called on Sir J Bullard yesterday afternoon at the latter's request to discuss UK/Italian relations in the light of correspondence with the PUS and of Lord Bridges' First Impressions Despatch. I was present. The following points are to be noted:

- (i) Lord Bridges is not entirely reassured that Signor Craxi will remain resolute on INF deployment. There were signs of wobbling before the elections (though none since) and he might be tempted to take an ill-conceived initiative if the coalition were threatened and he, for example, needed to build a bridge towards the PCI; *see now Rome talks 392 of 24 August on the Greek initiative;*
- (ii) Lord Bridges agreed that it would be appropriate, if the timing were right - for Mr Heseltine's meeting with Senator Spadolini to form part of the Summit;
- (iii) A decision on whether Mr Parkinson might make some party political calls would have to depend on whether he was still Conservative Party Chariman after the Party Conference;
- (iv) Lord Bridges did not regard a visit by the Home Secretary as a high priority;
- (v) Lord Bridges thought that the change of government in Italy would be an opportunity to try to change the scope and purpose of the Anglo-Italian Round Table. He saw it as an opportunity for promoting activities between Britain and Italy that mattered to both countries. The subjects for discussion at the Round Table should serve the policy objectives of both countries and should be more action orientated. He mentioned the European Community and industrial collaboration as possible themes;
- Bullard
- (vi) Lord Bridges thought, and Sir J / agreed, that there were sufficient housekeeping reasons for the PUS to go to Rome soon, and that it would not be necessary to take undue notice of the timing of the Summit and the Foreign Ministers' meeting;
- (vii) Sir J Bullard said that he would be happy to have a meeting with the Italian Political Director were Signor Bottai to be replaced.

/(viii) Lord Bridges

CONFIDENTIAL

(viii) Lord Bridges was not happy with the arguments in Mr MacRae's recent teletype on cultural rating. He thought that his proposals relating to Westminster and Kensington Councils should be considered more seriously. I said that we would have to await the Treasury's response to the Secretary of State's minute of 26 July before deciding what to do next.

2. I shall pursue points (v) and (vi) above.



J R Young

25 August 1983

cc:

Mr Collins ✓