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By MMK NLDDE Date 8/23/11

OPERATIONS COORDINATING BOARD
Washington 25, D. C.



~~TOP SECRET~~

December 30, 1955

PROGRESS REPORT ON UNITED STATES POLICY TOWARD ITALY

(NSC 5411/2)

(Policy Approved by the President April 15, 1954)
(Period Covered - November 1, 1954-December 29, 1955)

A. LISTING OF MAJOR DEVELOPMENTS DURING PERIOD

1. Changes in Italian Political Leadership. Gronchi, a Left-wing Christian Democrat, was elected to a seven-year term as President of Italy on April 29, 1955. After a prolonged crisis within and among the parties behind his Center coalition, Premier Scelba resigned on June 22, 1955. A new Center coalition government was formed by another Christian Democrat, Segni.

2. Italian Foreign Policy Developments. Italy continued its close collaboration with the U.S. and the Western Alliance but had considerable difficulty in adapting its foreign policy to Austrian neutrality, the change in Yugoslav-Russian relations and the general international detente. Italy increasingly emphasized its claim for a greater role in international affairs as manifested by its drives: UN entry, which it achieved, participation in UN disarmament discussions prior to gaining UN admittance, greater Western consultation with Italy, and a more important voice in Near Eastern affairs.

3. Internal Politics.

a. Internal Stalemate. The instability of the Italian Government continued, due to the narrow parliamentary margin of the Center parties and extensive differences on internal policy within and among these parties. Divisions within the Christian Democratic party are aggravated by the favorable responses of some Christian Democrats to Nenni Socialist overtures for cooperation offered on the basis of enactment of social and economic reforms but probably involving a neutralist foreign policy as well. Public debate is centered on the question of whether the axis of the Government should be shifted Leftward to secure the support of the Nenni Socialists. The prevailing public mood is one of political cynicism.

b. Softening of Anti-Communist Policy. The Italian Government, though remaining dedicated to the "defense of democracy", has ceased to make a public issue of Communism. Scelba's anti-Communist program of December 4, 1954 has been quietly dropped.

c. Fortunes of Political Forces. Although the Communists have lost some ground their basic strength remains unimpaired. Their faithful allies, the Nenni Socialists, benefiting at least temporarily by the new Soviet tactics, have made gains. The organizationally-improved Christian Democrats have gained ground at the expense of their lay democratic allies



and the Right-wing parties. Communist domination of Italian labor has been weakened by free union gains. The Christian Democratic organization of independent farm proprietors increased its already overwhelming predominance over its Communist competitor.

4. Military. The Southern European Task Forces (SETAF) was established on October 25, 1955 in response to the Italian Government's request that the U.S. redeploy a portion of its former occupation forces in Austria to North Italy in order to strengthen NATO defenses in that area. SETAF is



and Mutual Weapons Development contracts were let, making a total of about \$450 million since 1951.

5. Economic Sphere

a. Economic Stability and Improvement. During the past year the Italian GNP increased 6% in real terms and employment increased more than the increment to the labor force. However, approximately two million are still registered unemployed (9.5% of the labor force) and about one and one-half million are underemployed. The overall balance of payments has improved without a commensurate improvement in EPU.

b. U.S. Funds. In addition to FY 1955 defense support (\$15.5 million discharging U.S. obligation under Trieste settlement plus \$1.2 million obligated for TE and ICA Coal Program \$3.4 million), PL -480 will provide resources for supplemental feeding of school children, voluntary agency food programs and (under Title I when the sales agreement is fulfilled) local currency proceeds for economic development of the South. Major emphases in TE were development of an institutional base to spur free enterprise and an expanding economy to strengthen the National Productivity Committee, to improve public and private management, and to improve organization and operations of free labor unions.

c. Loan Agreements. An Ex-Im Bank loan to finance purchase of U.S. machinery and an IBRD loan to finance South Italian development were negotiated.

d. Further Steps Toward Economic Development. The Segni Government is publicly committed to the objectives of the long-range expansion studies called the Vanoni Plan. OEEC encouraged the Italians and requested more detailed plans. The Italian Government made unsuccessful efforts to obtain an official US commitment to assist in financing further economic expansion.

6. Information Activities - USIA. USIA assisted an Italian Government information program to initiate operations in South Italy and Sicily, aimed at winning just credit for the accomplishments of the Democratic coalition.



An indigenous national committee was formed which sponsored six training seminars for young Democratic party and union leaders. USIA helped explain U.S. policy on OSP, collaborated with the free labor unions in organizing information training seminars, and provided materials to democratic organizations for use in their own anti-Communist programs. It assisted in establishing courses on American subjects at several Italian universities, promoted publication of American books, cooperated with State in a leader exchange program, supported cultural events under the President's Fund Program and cooperated with Defense in maintaining a satisfactory public relations climate for U.S. forces.

7. Refugee Relief Program. Of a 60,000 quota which should be filled before the final deadline of December 31, 1956, 32,499 Refugee Relief Program visas were issued to Italians up to October 14, 1955 (refugees 2,428; orphans, escapees and expelees 635; and relatives 29,436). RRP announced it would not process any applications for refugees or relative visas after December 31, 1955.

B. SUMMARY STATEMENT OF OPERATING PROGRESS IN RELATION TO MAJOR NSC OBJECTIVES*

The basic policy paper is adequate and no revision is recommended at this time.

Despite U.S. initiatives and vigorous and successful actions by the U.S. Ambassador during the past year, U.S. ability to decisively influence Italian developments continues to decline from the high point reached during the period of large U.S. economic aid. However, U.S. influence is still considerable and U.S. prestige remains high. (See paras. 10 and 14)

8. In Strengthening and Stabilizing the Center Coalition. The changes in top Italian leadership were unfavorable. Although Premier Segni has maintained the Center coalition he is indecisive and his outlook is provincial. His weakness increases the range of maneuver of President Gronchi who, though avowedly anti-Communist, poses a threat to the Center coalition Socialists; moreover, Gronchi's attempts to expand the presidential power could gravely affect the stability of Italy and prejudice U.S. interests. In response to this situation, the President has invited Gronchi for a state visit beginning February 28. Despite constant U.S. encouragement and assistance, the Center coalition is probably weaker than a year ago and is so divided on internal issues that a government crisis could occur at any time. Unity of the Christian Democratic Party is hampered by personal rivalries as well as policy differences. The inability to secure passage of social and economic reform legislation limits the Coalition's possibilities of improving its public backing at the expense of the Left. The composition of the present Parliament makes it unlikely that a stable government can emerge in Italy until after the next national elections which must take place before June 1958. If elections were held now the Christian Democrats and Nenni Socialists would probably gain as compared with 1953, the Communists would very nearly hold their

*Latest NIE dated November 16, 1954. A revision of short-term political outlook now being prepared, with scheduled publication about January 1, 1956.

their ground, and the Right-wing and small Democratic parties would suffer losses. Although the organization of the Christian Democratic Party is improving, it is doubtful that this party is yet capable of winning by itself the absolute Parliamentary majority that could form the basis of increased political stability in Italy.



9. In Strengthening Italian Collaboration with the Free World.

a. Italian foreign policy. The new international conditions have caused the Italian Government considerable anxiety regarding Italy's defense posture and the adjustments required in her foreign and internal policies. It has had to defend stoutly its collaboration with the Western Alliance against a powerful Socialcommunist campaign in favor of a neutralist foreign policy, the establishment of more extensive relations with the East including Communist China, and a widening of the governmental majority to include at least the Nenni Socialists. The Italian Government and the parties supporting it were greatly relieved by the failure of the Geneva Conference. Influenced by uncertainty over the implications of the "Geneva spirit", the constant pressure of the Left, the need to compromise with the Right (at the price of developing a certain degree of Italian independence from its allies) in order to assure a substantial majority on foreign policy questions, the desire for increased international prestige, and the influence of President Gronchi and his Foreign Office supporters, Italian diplomacy during the past year undertook a number of initiatives, risky ones with the East and ill-advised ones with the West, which U.S. persuasion caused to be abandoned or watered down. However, with establishment of SETAF, partly as a result of Italian initiative, passage of SOF and exchanges of visits (Scelba and Martino in Washington, Secretary of State in Rome) Italy's ties with the West were cemented more tightly. Admission of Italy to consultation with the U.S., U.K., and France on the Middle Eastern arms question represented an achievement for Italy. Although the Italian public has not yet learned of this, it was pleased by Italy's admission to UN, but hopes for much more.

b. Military. The Southern European Task Force (SETAF) of 5,500 troops, now two-thirds deployed to North Italy, has strengthened the Southern flank of NATO and has furnished an added element of stability in Italy. Ratification of the NATO Status of Forces Agreement (SOF) removes the final obstacle to initiation of the military construction program and resumption of planning for additional deployment. MDAP generally met its objective in counteracting military deficiencies in the past year. Italy still accepts NATO force goals but its military budget is insufficient to permit attainment of these goals. There will be shortfalls in all three services in relation to 1954 annual review of force goals. The most serious weaknesses are in the air control and warning system, anti-submarine warfare, and deficiencies in the whole field of logistics. Although the effectiveness of the Italian defense forces has increased, deficiencies remain outstanding among all three services.

10. In Combatting the Communists. What progress was made against the Communists during the past year was largely due to U.S. measures and influence. The greatest success against the Left occurred in the trade union sphere where the OSP program, political screening for individual Italian plants benefiting from U.S. direct aid and procurement programs, U.S. encouragement of the free unions, and the increased organizational efficiency



of the free unions, were decisive factors. These U.S. policies, which were effectively carried out by the U.S. Ambassador, have caused a more favorable attitude toward free labor in some sectors of Italian management and have helped the free unions to reduce the extent of Communist predominance in the labor field. Firms affected by OSP screening criteria showed greater free union gains at the expense of the Communists than were made in other Italian plants. There is no assurance that Communist labor losses will be translated into Communist electoral losses. Technical Assistance programs, which the Communists oppose, are also favorably affecting labor-management views and relationships. Guided by the U.S. Government, U.S. companies with businesses in Italy are now beginning to follow labor policies consistent with OSP criteria. The press carried an increasing amount of anti-Communist material. The Communist Party was put on the defensive partially as a result of the Scelba Government's official attitude of hostility against it, expressed in specific actions and the un-implemented December 4, 1954 anti-Communist program. However, official action against the Communist apparatus has virtually disappeared under the Segni Government. The beginnings of more determined anti-Communist governmental actions and public attitudes (under Scelba) were blunted by the new "soft line" of the Communists.

11. In Strengthening Italy's Economy. The continued financial stability and increasing productive ability of the Italian economy reflects in part the effectiveness of past U.S. aid programs. Economic aid funds, counterpart and local currency resources and TE efforts are being concentrated as much as possible in problem areas, combining political and economic actions, with the effects noted above.

C. MAJOR PROBLEMS OR AREAS OF DIFFICULTY

12. Maintaining the Center Parties in Power--Preventing a Shift to the Left. Notwithstanding the Geneva results, the main internal issue in Italy for at least some time to come will be whether the majority behind the Italian Government should be broadened to include the Nenni Socialists. Resistance to the shift Leftward may be seriously weakened by further disunity within the Center coalition (especially within the Christian Democratic Party) and by the inability to secure passage of internal reform measures.

13. Combatting Communism. Since it is unlikely that the Italian Government within the next several months will take action against the Communist apparatus, the problem for the U.S. to find means to persuade the Government, the Center parties, and other groups to take this action continues.

14. Western Collaboration.

a. Political. It is probable that the U.S. will still be confronted with the problem of having to dissuade Italy from embarking on risky initiatives detrimental to Western strength and unity, and the need to find appropriate means to satisfy legitimate Italian aspirations for greater consultation and a more prominent international role. However, with entry to the UN on 14 December, Italy will realize a new and measured prominence in international affairs.



b. Military-Economic. The question of continued MDAP support remains. Though Italy's rate of economic expansion indicates a capacity to increase defense expenditures and thus reduce, but not eliminate the gap between requirements and current expenditures, political difficulties limit possibilities of increasing defense expenditures.

15. East-West Trade. Tendencies on the part of Italian leaders and increasing public pressures indicate the possibility that Italy may develop trade with the Eastern bloc including Red China.

16. OSP. The decline in volume of OSP and its possible early disappearance threatens the modest industrial base for armaments now existing in Italy and could result in significant reversals of the extensive recent gains of the free unions in OSP-recipient plants, gains which were largely achieved through OSP leverage. This in turn could create an adverse public reaction with attendant possibilities for propaganda detrimental to the U.S.

17. Economic Problems:

a. Economic expansion. The Italian Government is publicly committed to the establishment of further long-range development plans and it can be expected to continue pressing the U.S. to contribute to their financing. Should Italy make the political and budgetary decisions required to launch a sound program of additional economic expansion, the U.S. may have to consider whether and how to render marginal assistance.

b. Foreign investment. Though Italian legislation may soon be enacted to improve the climate for general foreign investment in Italy, the petroleum bill now under consideration does not provide attractive terms for foreign companies to participate in Italian petroleum development. Any attempt to modify the petroleum bill in a way less favorable to Italian nationalist sentiment will encounter great political difficulties.

c. PL-480. Though Italy wishes to negotiate a new agricultural surplus agreement (\$50-\$100 million), problems are presented by her probable inability to realize these commodity imports at the quoted prices (as in the current program), and by her desire to obtain a greater percentum of the lira proceeds for Italian uses.

d. Technical Exchange. A decision to eliminate unilateral U.S. Technical Exchange aid to Italy, now being considered, may raise problems of (1) obtaining adequate Italian budget and foreign exchange support to maintain the pace of the productivity program and (2) increasing the coverage of multilaterally-supported programs and private financing to meet the needs of special problem areas.

18. Immigration. Since the termination of the Refugee Relief Program expected at the end of 1956 will leave Italy with nothing more than its regular annual quota of 5,645, the Italian Government has started to exert pressure for an upward revision of this quota, transfer of unused Western European quotas to Italy, and the establishment of further special U.S. immigration programs.

Attachment:

Financial Annex to Progress Report on Italy
for period November 1, 1954 through December 6, 1955.

FINANCIAL ANNEX TO PROGRESS REPORT ON ITALY.

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(Figures are approximate only; in millions of U. S. dollars)

ACTIVITY OR PROGRAM	EXPENDITURES BY FISCAL YEARS						
	1953	1954	1955		1956		Current Est.
	Actual	Actual	NSC Est.	Actual	NSC Est.	Actual 31 Aug 55	
MDAP	417.9	346.9	689.0	200.8	293.0	23.9	200.0
Direct Forces Support	-0-	-0-	-0-	-0-	-0-		-0-
Defense Support and Development Assist.	1/ 191.2	116.3	62.03/	61.0	48.4 3/		22.4 4/
Technical Assistance	2/ .7	.6	.5	.6	.2		.8 5/
Information Services	7.0	2.7	4.7	2.6	4.7	1.2	2.8
Educational Exchange							
Shipment-Excess Stock (Acquisition cost)				.5 6/			
Reimbursable Aid							
Offshore Procurement (Including payment in lire on Sec. 550)	7.9	107.4	180.0	126.7			111.1
Other (e.g. Mil. Pay; Procurement; Contract Services)	48.0	53.5		63.5			3.0
(Includes payment in lire)		(10.5)		(7.8)			(NA)

NOTES AND COMMENTS: (Keyed to figures in above table)

- 1/ Includes expenditures under Sections 550, 402. Cumulative expenditure to June 30, 1952 was \$1240.9.
- 2/ Figures this line are for projects only and do not include costs of USOM support. Cumulative expenditure to June 30, 1952 was \$.7
- 3/ In NSC estimate, carry-over figure had assumed that \$37.5 million aircraft appropriation would be handled as economic aid, whereas it was used for combined end-item CSP procurement.
- 4/ No new Defense Support Aid is planned for Italy in FY 1956. This total amount represents carry-over from previous years. This rate of expenditure in FY 1956 will exhaust all carried-over Defense Support availabilities for Italy.
- 5/ This amount represents carry-over from previous years, except for \$30,120 in FY 1956 funds which provides for the final costs of projects begun and mainly financed earlier.
- 6/ Withdrawal from the program.

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FINANCIAL ANNEX TO PROGRESS REPORT ON ITALY (continued)
 For period: 11-1-54 to 12-6-55.



(Figures are approximate only in millions of U.S. dollars)

LOANS BY	During Reporting Period			As of 12-6-55	
	Disbursements	Repayments	New Loans Authorized	Undisbursed Commitments	Outstanding Debt
IBRD	2.5	0	\$70		
EX-IM BANK	0	10.6	\$20		

PL 480 Agreements:

	<u>L.C.U.</u>
Title I - FY 1955: Agreement: \$50 million - Agricultural Market Dev't.	\$ 1.7
- Strategic Materials	1.0
- Goods for Third Countries	4.6
- U.S. Obligations - Military Procurement	12.7
104(g) loan uses are in the process of negotiation	
- Italian Uses (loan) 104(g)	<u>30.0</u>
	<u>\$50.0</u>

Title II - FY 1955 Agreement - Supplemental Child Feeding Program - Surplus foods to a value of \$18 million to assist a first year of expanded operation. Expansion of feeding operations to begin in October, 1955.

Title III - FY 1955-Authorizations were given to Voluntary Agencies to move to Italy 82 million pounds of food, valued at \$27 million. The ICA contribution to the ocean freight bill was \$1.8 million. This program included the 1954 Christmas Package Program.

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