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## THE SITUATION IN AUSTRIA

### SUMMARY

The inconclusive ending of the Conference of Foreign Ministers in Moscow has prolonged the anomalous situation in which Austria has been for the last two years. Without a treaty, it is still a "liberated nation" on paper only; in fact, it is still occupied by the four powers. The political, social, and economic problems of Austria must be viewed within the framework of this dual status as a country both liberated and occupied.

The four occupying powers exercise supreme authority through the Allied Commission for Austria (AC), the powers of which were defined in the Control Agreement of June 27, 1946. While this Agreement was a step forward in restoring some measure of independence to the Austrian Government, it did not go very far in this direction. It retained the complex machinery of supervision by the AC and authorized the continued presence of occupation troops in Austria.

The burdens of occupation have been aggravated by differences among the four powers. Initially all of them agreed to keep the period of occupation in Austria to a minimum and to restore full sovereignty to the Austrian people and Government as early as possible. The Soviet attitude, however, changed radically after the Austrian national elections in November 1945, in which

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the Catholic People's Party gained an absolute majority, the Socialists ran a close second, and the Communists obtained only 5.4 percent of the total vote and elected only four out of 165 deputies to Parliament.

The USSR's new course was designed to compensate by economic means for the loss in political influence. This led to various short-term measures, including direct, unilateral exploitation of agricultural and industrial resources in the eastern zone of Austria, the removal of industrial equipment and output to the Soviet Union, and the adoption of a policy of delaying action both in the AC and in the treaty negotiations. In terms of long-range objectives, this reversal of the Soviet attitude aims at perpetuating economic influence in Austria in order to counteract what the Russians consider a one-sided Western orientation of the Austrian ruling groups. For this reason, the issue of German assets in Austria is the most crucial aspect of the Austrian treaty from the point of view of the USSR; and its long-term significance explains the unyielding position which the USSR has taken on this subject.

*how far does counteraction go?*

Of the three other powers, the UK has consistently supported the US in its efforts to bring the occupation to an early end and to grant financial and other assistance to Austria. The French have in general taken a position midway between that of the British and Americans and that of the USSR. While they have generally

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sided with the long-range objectives of the Western powers, they have fully exploited their own zone for immediate French advantages and have also staked out their claims for German assets.

Subject to the supreme authority of the AC and caught in the conflicts among the powers, Austria has made little progress since its liberation. The country has functioned as a Federal Republic within the constitutional framework of the First Republic and has reorganized its internal administrative, political, and economic machinery, but this revival of indigenous governmental processes has had little more than formal meaning. The national Government, formed after the elections in 1945 as a coalition of the three legitimate parties, has been recognized by all four powers. In all crucial matters of internal legislation and administration, however, it has remained subject to the authority of the AC or the individual zonal commanders. The three political parties have engaged in lively parliamentary and public activities, but the two majority parties have in fact been primarily concerned with maintaining their coalition against pressure from the small Communist forces and the Soviet authorities rather than with a forthright execution of their own political and social programs. Finally, as regards economic policy, Austria has been still more dependent upon the action of the occupying powers: upon the US and UK for food relief and financial aid, upon the Russians and French because they have deprived Austria of the full use of its

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indigenous resources.

Under these circumstances, it is not surprising that the domestic scene in Austria has been dominated by foreign-political issues. From the Austrian point of view, especially after the failure in Moscow, the most important political objective has been to find a modus vivendi with the occupying powers which would terminate the occupation as soon as possible. The present Government (for all practical purposes a coalition between the People's Party and the Socialists) is strongly committed to a Western orientation in foreign affairs -- traditional in Austria throughout its history. Both parties, however, realize that Austria will probably be obliged to readjust its relations with the USSR as a result of the changes in the European balance of power after this war. In addition to its political influence as one of the powers presently occupying Austria, the Soviet Union will also, by virtue of its claims to former German industrial assets in Austria, retain a certain measure of economic influence which cannot be disregarded altogether. Moreover, Austria's neighboring countries in Eastern Europe, which have always been its essential trade partners, are now within the Soviet sphere of influence.

For these reasons, there are (besides the Communists) certain minority groups in the two other parties which, though ideologically and politically opposed to the Soviet Union, favor a more conciliatory course. The ability of the ruling groups to maintain their traditional Western ties will depend on the success

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of Western support in counteracting the new political and economic pressures to which Austria will be exposed in its relations with the USSR and other states of Eastern Europe.

Further discussion of specific issues in the situation in Austria is contained in the Enclosure hereto.

ENCLOSURE: SPECIFIC ISSUES

The Treaty. The Conference of Foreign Ministers in Moscow (March-April 1947) ended without a treaty for Austria because the participants could not resolve their differences on the crucial issue of German assets as well as on a number of subsidiary issues such as the Yugoslav demands for reparations and a territorial revision. While this failure to obtain a treaty neither upset the Austrian Government nor produced any radical change in its traditional Western orientation, there is evidence that it has somewhat strengthened the hands of those groups in Austria which are prepared, if necessary, to make certain economic concessions to the USSR in order to bring about the end of the occupation. The idea seems to be gaining ground that a treaty is the most indispensable prerequisite for any internal recovery and that, even if the end of the occupation can be had only at the price of economic concessions to the USSR, Austria will still be in a much better position than it is now. For this reason the Austrian delegation in Moscow even considered the Molotov formula for the

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disposal of German assets "as a suitable basis for negotiations."

German Assets. At the Potsdam Conference, the four powers agreed to use German external assets in their respective zones of occupation in Austria as reparations against Germany. Differences about this provision arose because the Potsdam Agreement did not contain a definition of what constituted a "German asset" in Austria. The Western powers claimed that the Potsdam Agreement should be interpreted in conjunction with the prior Allied Declaration of January 1943 according to which property transfers in Nazi-occupied areas, if effected under "force and duress," were to be considered null and void and the property was to revert to its previous owner. In addition, the Western powers have maintained that any differences either among the four powers or between any one foreign power and the Austrian Government should be settled in quadripartite negotiations. Finally, they have insisted that any assets transferred to one of the occupying powers should remain subject to Austrian law. In general, the aim of the Western powers on this problem has been to narrow the scope of "German assets" in order to save as much as possible of the financial and industrial assets physically located in Austria for the benefit of the Austrian economy. The US, for example, has actually returned German assets in its zone of occupation to the Austrian Government pending a final settlement. The British and French have generally supported the US position; but

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so far they have retained actual possession of former German assets in their zones.

In contrast, the USSR has interpreted the Potsdam Agreement to include as large as possible an amount of German assets in the eastern zone. It has been willing to make exceptions only in the case of transfers under "direct forcible action," with the burden of proof lying on the former owner of the property. Moreover, it has always insisted on bilateral negotiations with the Austrian Government only, and on special provisions whereby assets transferred to the USSR would be exempt from future nationalization in Austria.

No compromise solution satisfactory to all powers could be reached at the Moscow Conference. The Conference, however, agreed to appoint a special Inter-Allied Commission for the further study of this and the few other outstanding issues of the treaty.

Meanwhile, the Soviet authorities in the eastern zone have implemented their own interpretation of the Potsdam Agreement by assuming ownership of some 125 industrial enterprises and of agricultural property estimated variously at between 10,000 and 15,000 hectares. These transfers include such well-known industrial enterprises as the Danube Steamship Company and the Zistersdorf oil fields. Regardless of the final outcome of the quadripartite negotiations on this subject, it is quite evident that the USSR will retain a considerable economic influence over

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the Austrian economy as a result of inheriting former German assets. It is this consequence which renders the issue of German assets so crucial to the USSR from a political point of view.

*recognition of  
legitimacy of  
Soviet claim -  
"seizing" would  
better conform  
to US view.*

The Yugoslav Demands. The other outstanding issues of the treaty, though troublesome, are generally considered to be subsidiary. Of these the Yugoslav demands for \$150 million in reparations from Austria and for a cession of territory in southern Carinthia have received the widest publicity. Both demands were supported by the USSR and rejected by the three other powers.

The claim for reparations is in conflict with the Potsdam Agreement, according to which no reparations of any kind were to be exacted from Austria. The claim for a territorial cession in southern Carinthia is based on ethnic grounds. This area, according to the Austrian census of 1934, includes some 27,000 Slovenes. The Yugoslavs have disputed the official census figures, but the Western powers have rejected their claim on two grounds: (a) that it would violate the Moscow Declaration of 1943 according to which Austria was to be reconstituted within its 1938 boundaries, and (b) that the Yugoslav case for a territorial revision was already adjudicated in favor of Austria by an internationally supervised plebiscite after the last war. It is generally believed that the USSR, after a settlement of the German assets problem, will be inclined to accept a compromise on these issues which would

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be close to the position of the Western powers.

The Government. The Austrian Government operates within the framework of a republican, federal, and democratic constitutional system. The present Constitution is essentially that of 1920 as amended in 1929. It sets up a republican state, based on a federal structure similar to that of the US; and it provides for democratic institutions and practices -- including free elections, government responsibility toward the electorate, judicial independence, a bill of rights, etc. -- such as are characteristic of the traditional concept of a parliamentary, liberal democracy. The governmental structure is composed of a Federal President, a national Government headed by a Federal Chancellor, a national Parliament consisting of two houses, a provincial governor and parliament for each of the nine federal states, and subsidiary district and local governmental agencies.

The present national Government was formed after the elections on November 25, 1945. It is subject to the authority of the Allied Commission (AC), as stated in the Control Agreement of June 28, 1946. This Agreement improved the position of the Austrian Government considerably by stipulating that only constitutional laws would henceforth be subject to unanimous approval of the four powers; all other legislation would automatically go into effect if the AC failed to act upon it within 31 days

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after it was submitted. The effect of this relaxation of Allied controls, however, was considerably reduced by other provisions in the Agreement which left a number of important matters subject to the jurisdiction of each zonal commander. Thus, in case any one power disagreed with the decisions taken on the national level, it could countermand them in its own zone of occupation. The USSR took widest advantage of this possibility for unilateral action with regard to such matters as the distribution of food supplies and petroleum resources, the seizure of German assets, and the nonrecognition of nationalization in the eastern zone.

The present Government is a coalition of all three parties: the People's Party, the Socialist Party, and the Communist Party. In effect, however, it is a coalition of the first two only, partly because political power in Austria is almost evenly divided between them, partly because the participation of the numerically small Communist Party in the Government is largely formal. On most major issues the Communists have voted against the Government; they have also conducted an intensive campaign attacking the Socialist-People's Party coalition and calling for new elections even before the end of the occupation.

The Political Parties. In the national elections, the People's Party received 49.8 percent, the Socialist Party 44.6 percent, and the Communist Party 5.4 percent of the total vote. In terms of parliamentary seats, this result gave the People's Party an absolute majority of 85 deputies out of a total of 165. The Socialists

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elected 76 deputies, the Communists four. This is the first time that Communists have ever had any parliamentary seats in Austria.

The People's Party represents primarily middle-class, industrial, and peasant interests, and is closely affiliated with the Catholic Church. The Socialist Party represents chiefly the interests of the working-class and lower middle-class population, which is usually without religious affiliation. Both these majority parties have a long political tradition and solid backing in terms of the social structure of Austria. The Communists have apparently gained some strength among the working-class population at the expense of the Socialists; they have also been particularly active and partly successful in the trade-union movement. But there is as yet no evidence that these small Communist gains will increase to a degree which might seriously endanger the dominant position of the other two parties. The great majority of the labor movement is firmly behind the Socialist Party, and most reports from the eastern zone confirm a conclusion drawn from the experience of other Soviet-occupied areas: the fact of Soviet occupation, though giving the Communists certain short-range advantages, may actually harm their political prospects in the long run. The Communists could become a threat in Austria only if the two other parties failed utterly in executing a constructive program of their own or if the Western powers failed to implement their repeated promises of economic and financial aid to Austria.

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The two majority parties differ in their internal programs as well as in their foreign orientation. The People's Party aims primarily at the maintenance of a capitalist democracy modified roughly along the lines of the social and political program of the Catholic Church. The chief aim of the Socialist Party is the establishment of a socialist democracy in general corresponding to the program of the British Labor Party. The former party is inclined to lean particularly heavily on the US for support; the latter has a certain distrust of US intentions in Europe and favors closer cooperation with the UK. The majority of both parties, however, is united in opposition to the USSR with regard both to immediate Soviet demands on Austria and to any long-term dependency on the Soviet Union.

The Government Record. Faced with the aftermath of the war and the difficulties arising from a four-power occupation, the Government has not made an overly impressive record. What it has achieved is almost entirely due to the successful cooperation of the two majority parties, which have been able to compromise on a number of important internal issues, on several of which they were opposed by the Communists. In addition to the over-all reorganization of government services, the reconstruction of the educational and judicial systems, and the measures undertaken for economic revival (discussed below), the most important internal laws and foreign agreements are the following:

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a. Currency Conversion. By a law of November 30, 1945, the Austrian currency was converted from reichsmarks to schillings on a one-to-one basis. Further legislation for the stabilization of the currency is still pending.

b. Compulsory Labor Law. On February 15, 1946, Parliament passed a law providing for compulsory labor service for all men between the ages of 16 and 55 and all women between the ages of 16 and 50 who were not employed on a full-time basis. Compulsory service was to apply for a period of six months, with the possibility of an additional six months at the option of the Government.

c. Nationalization Law. By a law of July 26, 1947, some 70 major enterprises in the key industries of Austria were transferred to public ownership of the state or to joint ownership of "works cooperatives" and the state. This law, which is undoubtedly the most important piece of legislation adopted by the Government, has not yet been implemented owing to Soviet refusal to recognize its validity in the eastern zone. The Soviet authorities claimed that it violated Soviet rights to German property under the Potsdam Agreement. When no agreement on this issue could be obtained in the AC and the Soviet authorities declared that they would not recognize the nationalization law in their zone, the Austrian Government announced that the implementation of the law would be postponed pending the final clarification of the rights of foreign property under the law.

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d. South Tirol Agreement. On September 21, 1946, Italian Prime Minister Alcide de Gasperi and Austrian Foreign Minister Karl Gruber signed an accord in Paris by which Austria agreed to renounce its claims for recovery of the disputed area of South Tirol (Alto Adige) and Italy agreed to grant this area -- which has a German-speaking majority -- a large degree of administrative and cultural autonomy. Though the situation of the ethnic Germans (Austrians) in this area will be considerably improved if the agreement is fully implemented by the Italian Government, this settlement actually constituted a serious setback to Austrian aspirations, shared equally by all political groups, for a recovery of this long disputed territory.

e. Denazification Law. The final Denazification Law was passed by Parliament on February 6, 1947. It is estimated that it will directly affect approximately 500,000 Austrians who were registered Nazis. However, only some 50,000 of this number are expected to fall into the category of major offenders; the rest will be classified as less implicated and minor offenders, and will be cleared after a nominal fine. Nevertheless, this final version of the Denazification Law was virtually forced upon the Government by the Allied Commission, which considered previous Austrian legislation on the subject as too mild.

f. Collective Bargaining Law. On February 26, 1947, Parliament adopted a new collective bargaining law. An extension of previous

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legislation during the First Republic, it provides for industry-wide collective bargaining, and gives a virtual monopoly position to the Chamber of Commerce and the Trade-Union Federation as the representatives of management and labor respectively in the bargaining process. A new Works' Councils Law providing for increased labor participation in industrial enterprises is nearing completion in draft form.

Economic Developments. Economic recovery has been slow. While some progress was made in industrial production during the last quarter of 1946, this was offset by an unusually severe winter during which some of the major enterprises (such as the steel works at Donawitz, the nitrogen plant at Linz, and the aluminum plant at Ranshofen) were forced to discontinue operations. However, the economic picture has improved again with the beginning of spring: industries have resumed operations, hydroelectric power production has increased, and coal imports have again reached the level of last fall.

The important program for 1947, totaling \$320 million, consists of \$128.5 million for food, \$110 million for industrial equipment, \$32.5 million for coal, \$33.5 million for agricultural requirements, \$3.5 million for medical supplies, and \$12 million for miscellaneous items. The export program for 1947 has been set at \$120 million. The fulfillment of a substantial portion of the industrial import program is of paramount importance in order to stimulate the export program and improve Austria's balance of

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payment. A large part of the British financial assistance of £10 million sterling will be used for industrial equipment and raw materials. This side of the economic program will be further strengthened if the Austrian application for a \$25 million loan from the Export-Import Bank should be approved.

Several factors influence the state and development of Austrian economic reconstruction. The full effect on Austria of the Potsdam Agreement on the disposal of German assets remains to be seen. This, as shown above, is particularly important with regard to the valuable assets claimed by the USSR in its zone of occupation. Another factor is the prevention of inflationary trends. The currency reform in November 1945 was only a first step in this direction. It has not yet produced a currency which is trusted by the population. Although black market prices dropped considerably in 1946 and have only recently shown a slight upward trend, the present money prices are not a sufficient incentive to increased production.

In the long run, however, the resumption of foreign trade and the establishment of international exchange rates will be the most important factors for economic recovery and stabilization. In 1937, of Austria's total imports food and animal products amounted to 27.9 percent, raw materials and semifinished products to 35.6 percent, and hard coal to 7 percent. To pay for these

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imports, Austria needs export markets for its industrial products. Before the war about 40 percent of Austria's industrial output was exported. The major trading partners were Germany, Italy, and Austria's eastern neighbors (Czechoslovakia, Hungary, Yugoslavia, Rumania, and Poland). Germany held the largest share in Austria's foreign trade, providing between 15 and 22 percent of Austria's imports and receiving between 13 and 16 percent of its exports. The share of Austria's eastern neighbors varied between 39 and 47 percent on the import side and 32 and 47 percent on the export side.

The present low level of foreign trade is indicated by the fact that the monthly average during 1946 (not including trade with Germany) was 13 percent on the import side and 17.5 percent on the export side as compared with the monthly average of foreign trade in 1937. Trade with Switzerland, never before a very active trade partner with Austria, is at present the heaviest, followed by that with Czechoslovakia and Italy. The resumption of foreign trade on a larger scale is severely hampered by the lack of international exchange rates. Export trade must be conducted on a barter basis in the form of bilateral or even trilateral transactions. Trade with Czechoslovakia and Poland, on which Austria is particularly dependent for its solid fuel requirements, has been restricted because these countries have insisted on payment in "hard" currency or acceptable goods. Moreover, Austria's

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economic position vis-a-vis its eastern neighbors, on which it depends for other raw materials and food, has further deteriorated because of the political changes in the European balance of power which have brought these countries within the Soviet sphere of influence. Finally, at least a moderate resumption of trade with Germany is important for Austria -- partly because much of Austrian industry is tooled with German machinery so that spare parts and certain materials cannot be procured elsewhere, partly because Austria needs coal from Germany, and Germany, in turn, is dependent on hydroelectric power from Austria. The original US policy advocating a complete severance of economic relations between the two countries has recently been modified, but the actual volume of trade between them during 1946 remained negligible.

The food situation remains critical. The ration of 1,550 calories per day for the normal consumer could not be maintained equally in all parts of the country. Last year's crop was barely more than 50 percent of the prewar level. This placed Austria's food level among the lowest in Europe and made the country largely dependent on foreign imports for mere physical survival. A higher food ration is provided in the import program for 1947, but the delay in executing the program has prevented any improvement so far during the current year. The full use of Austria's indigenous food resources has been considerably hampered, partly by unilateral Soviet action depriving the Government of full

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jurisdiction over the allocation and distribution of food supplies in the eastern zone and partly by the weakness of the Government's own system of food collection and distribution.

Long-Range Prospects. Despite current difficulties, the long-range prospects of Austria, both political and economic, are generally estimated as fairly good. Politically, the position of the People's Party and the Socialists appears quite secure. Even if, as is generally assumed, the Socialists should win a majority in the next national election, it is highly probable that the present coalition would continue even after the end of the occupation. For some years to come, neither party will wish to assume sole responsibility for national affairs. The stability of this regime could be endangered by Communist forces or Soviet influence only if grave economic crises should occur in the next few years.

This political structure also explains the emphasis which the USSR has placed on gaining an economic foothold in Austria through the acquisition of former German assets. Under the circumstances, the best calculated long-range objective of the USSR in Austria would seem to involve the use of this economic foothold in order to retain some Soviet influence in Austria after the occupation is lifted. The prospects for this objective depend both on Austria's bargaining position vis-à-vis the countries of Eastern Europe and on the possibility of alternate trade relations with the

*To what extent is the Austrian economy dependent on these assets?*

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*mutual  
?*

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West. If trade with the former economic markets in Eastern Europe should not develop satisfactorily, Austria's dependence on the West would obviously increase greatly. However, until economic relations with the Western powers develop to a degree which would permit Austria to dispense, if necessary, with its traditional markets in Eastern Europe, it is unlikely that any Austrian government could afford to pursue a course which would seriously jeopardize this Eastern trade.

*Whence the assumptions?*

Assuming that the international situation remains fairly stable and that Austria retains control of most of its resources, economic recovery should continue at a satisfactory rate. The newly developed petroleum resources and the increased hydroelectric power output should reduce appreciably the need for bituminous coal imports in the future, and the expanded facilities in the fertilizer, aluminum, ball-bearing, engineering, chemical, and other industries should reduce import needs and provide new products for export. Taking these developments into account, a decreasing annual deficit may be expected for the next few years and an equilibrium in the balance of payments may be reached in the early 1950's.

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