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WESTERN EUROPE BRANCH
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CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

BRANCH WEEKLY

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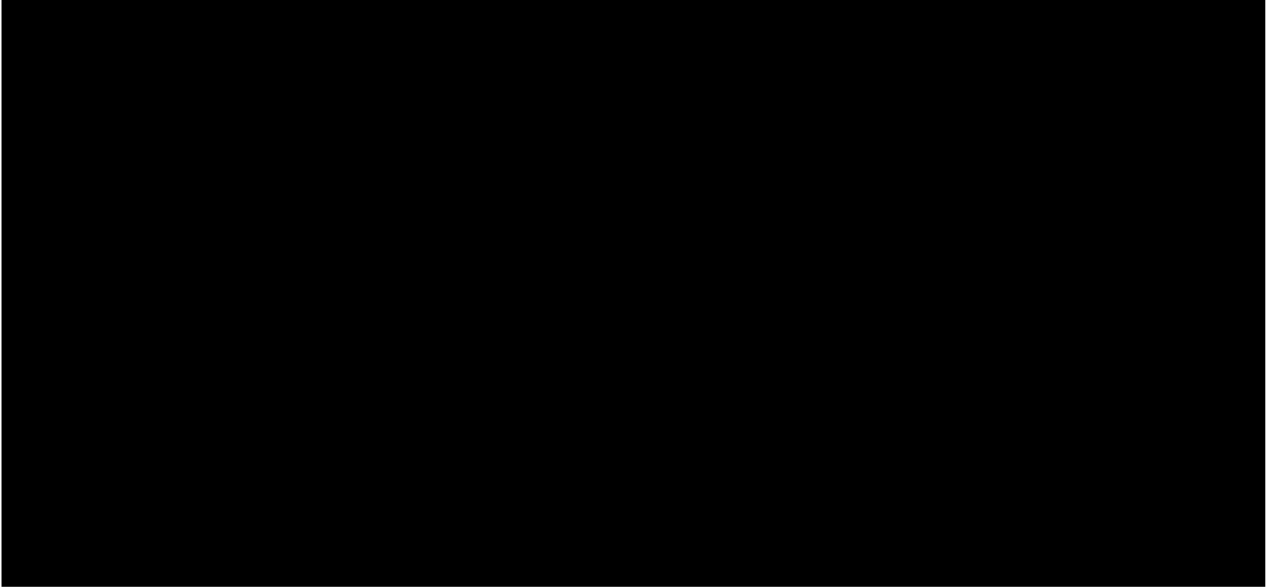
WESTERN EUROPE BRANCH

WEEKLY SUMMARY

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For week ending
6 September 1949



AUSTRIA

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Austria's post-treaty financial obligations will increase initially its need for outside assistance and will probably result in a decline in living standards. For a period of six years, Austria will be required to make annual payments of \$25 million to the USSR in freely-convertible currency. In addition, it will be faced with obligations under an Austro-French restitution accord, with miscellaneous Soviet claims, with some of the costs of its army, and probably with the necessity of reimbursing nationals of UN countries for properties transferred to the Soviet Union. Moreover, a treaty will mean an end to the \$12 million annual US reimbursement for occupation costs and the \$3 million IRO contribution. A further complicating factor is that the approximately 280 firms seized by the USSR, and to be returned to Austria under the treaty, will probably require costly rehabilitation.

It will be particularly difficult for Austria to make payments in freely-convertible currencies. A rough estimate of a potential increase in Austria's income of from \$30-60 million after the treaty is concluded indicates that

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exclusion of ECA payments?

only a very small portion of this sum will be available in hard currency. Also, even under presently improving economic conditions, Austria's dollar reserves are not increasing sufficiently to meet additional dollar needs. Although Austria is presently receiving more per capita ECA aid than any other country, its trade has increased to only two-thirds of the prewar level. Its dollar deficit (largely met through ECA), is still running to \$200 million annually, and the deficit from other currencies is \$50 million a year. Furthermore, in the post-treaty years there will be no immediate restoration of the invisible receipts on which Austria has depended so heavily in the past--receipts from tourists, transit traffic, insurance, banking, and investments.

Austria's ability to meet its financial obligations appears to lie in: (1) a large increase in exports, (2) an increase in trade with Germany, (3) a shift of purchases to non-dollar areas, and (4) an increase in trade with eastern Europe. Even under maximum Austrian efforts, it is doubtful that these objectives can be achieved during the early post-treaty years, during which Austrian dependence on outside assistance will be particularly acute. Austria will undoubtedly look for continued ECA assistance at present levels, as well as an international loan or Export-Import Bank loan.

FRANCE

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The French Government's bold measures intended to support the year's excellent economic progress by checking both the reappearing inflationary pressures and the rising labor and farmer unrest are not likely to prevent the development of a political crisis by November. In fact, such a crisis may be fostered by these measures which include: (1) emergency limited food imports to combat sharp price rises and thereby bring some reduction in labor's wage demands; (2) removal, for the benefit of farmers, of import quota restrictions on certain industrial items to resist pressure for a material increase in the price of wheat; and (3) a directive to the Bank of France designed to tighten credit to business.

The odds seem to be against a general success for the Government's strategy, which has encountered farm and labor opposition that will come to a head before prices can be affected, probably in late September. Furthermore, the potential effectiveness of the increased imports in reducing domestic prices has been weakened by the Cabinet's decision

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to retain import duties, except on wine. The directive on credit will discourage stockpiling of scarce goods, but Bank of France officials may well continue to circumvent the Government's orders.

Immediate and defiant complaints have already been made by key economic groups. The Wheat Growers' Council has issued an ultimatum threatening drastic countermeasures by 1 October unless the promised price reductions are realized at once and increases in certain other supplies are prevented. Producers would be instructed to refuse wheat deliveries at the official price; the practice of exchanging wheat for bread would be extended, thus circumventing the official distribution system; and producers would be dissuaded from obtaining credit for farm improvement. Even if these threats are not carried out, the farmers are likely to resort to considerable hoarding and to reduce acreage sown to wheat. Meanwhile non-Communist as well as Communist labor has announced strong opposition to the extraordinary imports of competitive industrial products. The Socialist-oriented Force Ouvriere has reiterated its conviction that the Government should force price reductions from the profits of merchants and industrialists, instead of resorting to extraordinary imports.

Despite Premier Queuille's present confidence in the outcome of the Cabinet's program, increased hostility of economic groups toward the Government and one another is weakening the Government's prestige. Adverse effects of the drought, and the strikes which are increasingly indicated, are expected to add their blows as the Cabinet faces in October its greatest test in Parliament since 1948.

B

The French delegates to the Council of Europe will try to postpone the discussion of the admission of west Germany to the Council in view of persistent fears of a resurgence of aggressive German nationalism, and conflicting French opinions on the future political status of the Saar. The idealistic view epitomized by Foreign Minister Robert Schuman--that "it is necessary to reorganize Europe morally so that there will be a place for each nation, including Germany"--conflicts with recent statements by responsible government officials, such as Jules Moch, Minister of the Interior, who commented in regard to the German elections that the Germans had not made any efforts to repent "nor had they even regretted the crimes of Nazism."

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Policy on the political future of the Saar will not readily be decided by the French Government, or by the members of the Consultative Assembly, if France raises the question. France desires guarantees that the Saar will be detached politically, as well as economically from Germany. By indicating that it favors the incorporation of the Saar into the Council of Europe, possibly as an associate member, France hopes to wean the Saarlanders from pro-German tendencies which would prove embarrassing in the event of a future plebiscite. The question of the Saar is further complicated by the fact that Guy Mollet, Secretary General of the French Socialist Party, is strongly opposed to the admission of the Saar prior to a formal peace treaty with Germany.

These French differences of opinion, however, concerning Franco-German relations will probably be reconciled gradually under the influence of statesmen like Robert Schuman in a national conviction that West Germany must be integrated into a reorganized Europe. In regard to the Council of Europe, a compromise is likely, involving the simultaneous admission of both West Germany and the Saar.

FRENCH AND SPANISH NORTH AND WEST AFRICA

B French authorities in Algeria may be storing up trouble for themselves by overestimating the extent to which they can ignore the interests of the natives. The French, apparently confident of Algeria's stability, are holding in abeyance plans for ameliorating the lot of the Moslems, while projects benefiting the European minority, or designed simply for general economic development, will be undertaken. By overlooking the deep-rooted political and social instability of the country, the French authorities are prolonging Moslem unrest and encouraging further Communist exploitation of the anti-colonial propaganda theme. The French, however, see no necessity to adopt a more liberal program. They discount the threat of Communist-nationalist collaboration because the political parties are small and are frequently involved in internecine rivalries. Current struggles for control, however, within Algeria's two leading nationalist parties--the Democratic Union of the Algerian Manifesto (UDMA) and the Movement for the Triumph of Democratic Liberties (MFLD)--probably will strengthen these groups. Then the coalition of either one or both of them with the Algerian Communists would result in serious opposition to the controlling authorities.

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BELGIUM

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As a result of the changed relationship of the Socialist Party to both the Catholic and Communist Parties, Belgium may experience political instability, if the Socialists long remain out of the Government. A sharpening of the differences between the Catholic right wing and the Socialist extreme left will make a return to a Catholic-Socialist government exceedingly difficult. The Catholic Party, in its coalition with the Liberals, is likely to be influenced more and more by its conservative members, and may eventually become dominated completely by them.

In contrast, the Socialist Party, divested of governmental responsibility and confronted with conservative Government policies, is likely to assume more positively the role of a left wing labor party. Grudging cooperation of Socialist leaders with the Communists against a conservative Government may make the Socialist membership more susceptible to Communist influence. The Communists are strongly stressing "worker unity" and even attempted to join the Socialist "Action Committee" formed to prevent King Leopold's return. Although rejected by the Socialists, the Communists may be more successful later in supporting them on other issues, and may then, in turn, receive the support of at least some Socialist workers in Communist-promoted strikes. The loss of Socialists to the Communist ranks is not foreseen, but there may be a rapprochement that will weaken the control of Socialist leaders over their party or trade union membership and increase the Communists' ability to foment strikes and unrest.

ITALY

A

The Christian Democrats' dominance, now increasing, over Italian political affairs holds two dangers: First, the possibility that a single-party government by the Christian Democrats may develop, presumably under the control of right-wing elements of the party who would oppose socio-economic reforms and would tend toward an authoritarian promotion of their own principles; second, and more likely for the immediate future, is the possibility that Premier De Gasperi, intent on insuring the continuity of Christian Democratic control, will continue

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to be so careful not to arouse effective political opposition that he will fail to achieve any adequate solution of major social and economic problems.

At the recent Congress of the Christian Democratic Party, representatives of both the right and left wings stressed the potentialities of the party for governing alone. The right wing has strong representation in the Party's National Council, formed after the Congress, and such vigorous right-wing exponents of single-party government as Interior Minister Scelba will undoubtedly increase pressure on De Gasperi to this end. Scelba has managed to develop the police forces into a strong weapon for coping with subversive uprisings, but the indiscriminate zeal displayed by his police on several occasions suggests that the absence of opposition in the Cabinet might encourage him to such excessive vigor that the Communists would find ample grounds for attacking the Government as authoritarian. Furthermore, recent piecemeal limitations on personal conduct point the direction in which the right wing Christian Democrats would tend to go. Associated as they are with conservative and wealthy elements, the right-wingers would oppose legislation appreciably altering the economic status quo to the advantage of underprivileged groups.

Although Premier De Gasperi occasionally threatens the minority parties in the Government coalition with the possibility of an all-Christian Democratic Government, he hopes to maintain the coalition as long as it serves to keep his party in a position to dominate or neutralize articulate opposition.

B Price controls may be imposed by local Italian authorities as a result of the continued failure of retail prices to reflect the reduction (8% since May) in wholesale prices. The national Government, recognizing the economic, social and political dangers inherent in the stickiness of retail prices, has called together producing, wholesaling, and retailing leaders in an effort to persuade them to effect voluntary reductions in retail prices. As it is doubtful that voluntary and adequate reductions in all areas will be forthcoming, price controls of the type recently imposed by the Milan Prefect may be found necessary in other provinces.