

File

WESTERN EUROPE BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

BRANCH WEEKLY

NOTICE: This document is a working paper, NOT an official CIA issuance. It has been co-ordinated within ORE, but not with the IAC Agencies. It represents current thinking by specialists in CIA, and is designed for use by others engaged in similar or overlapping studies. The opinions expressed herein may be revised before final and official publication. It is intended solely for the information of the addressee and not for further dissemination.

DATE: 4 October 1949

DOCUMENT NO. 1
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE 10-25-75 REVIEWER: 372044

WESTERN EUROPE BRANCH

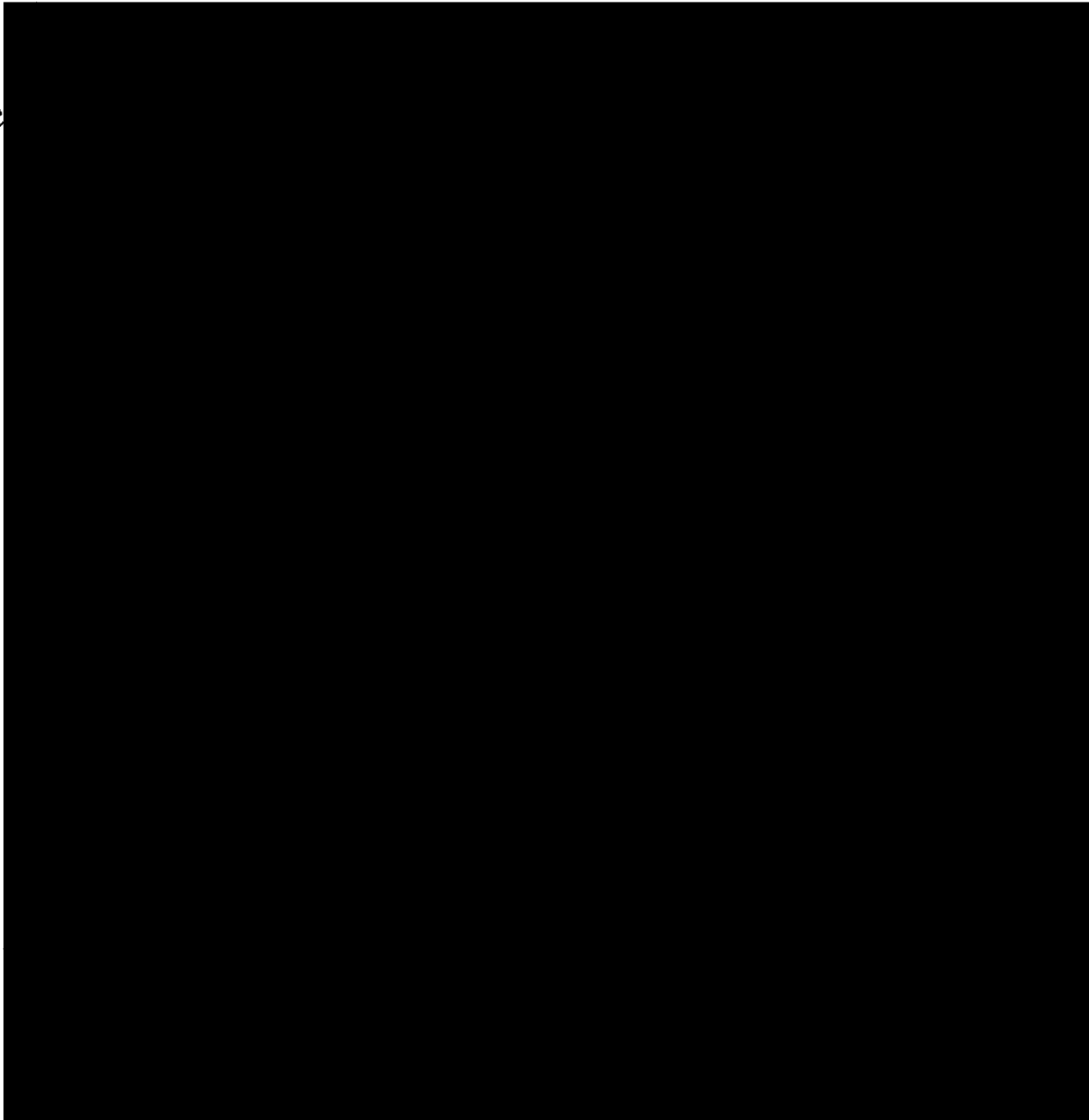
WEEKLY SUMMARY

VOL. V -- No. 12

For week ending
4 October 1949

25X6A

A



25X6A

FRANCE

A A considerable reassessment in France of the country's role in the building of the Atlantic Community and her reliance upon the Atlantic Pact will take place as a result of recent US-UK trade and monetary decisions and President Truman's announcement of the Soviet atomic explosion. Within Government circles and among the population a conviction is growing that the US and UK are tending to act bilaterally in economic matters without due consideration for the interests of continental European nations. Apprehension has resulted from the exclusion of France from the Washington monetary talks, the reported US economic concessions to the UK, the UK's unilateral and drastic devaluation of the pound, and, finally, US pressure to devalue the German mark to a degree which would, the French claim, unduly favor German interests at the expense of France.

French concern for the possible adverse effects of this trend upon the national security will probably be increased by the implied Soviet possession of the atomic bomb. Two days following the announcement of the explosion, General De Gaulle stated publicly that the military significance of the Atlantic Pact was now lost, and hence a Franco-German bloc for mutual defense was necessary. The moderate, semi-official Le Monde went further and expressed pessimistically that "Europe has lost its strategic value to both the West and the East" and that "there is no longer good reason to rearm Europe or to set and fortify a defense line on the Elbe." All these developments will reinforce French convictions that the US must give firm guarantees of immediate and large-scale military intervention in case of war with the USSR, and may also tend to make France less tractable in future negotiations with the western powers.

B New French parliamentary measures to cover the 1949 budgetary deficit will probably be found necessary by the Queuille Government, and will aggravate the political difficulties that will arise in October because of the Cabinet's wage-price policies. The deficit, previously estimated at nearly 500 billion francs, will be increased because the Government has reportedly decided on price subsidies, and workers in the nationalized industries will share in the greater allowances the Government is

giving to workers. The Cabinet, therefore, in order to keep its commitments to Parliament and ECA to avoid inflationary financing, must devise and propose in Parliament new tax revenues or curtailment of over-all expenditures, or both. This will be a difficult task because: (1) even the existing surtax on gasoline is highly unpopular, and pressure against it is developing among parliamentarians; (2) the Government is in a weak position to win political support of any new taxes or economies; and (3) business is exerting considerably heavier pressure upon the Government to modify its anti-inflationary policy (and provide a greater volume of credit) in view of the effects of the drought, devaluation, and, prospectively, of wage increases.

Despite the laborious revision in May and June of this year's budget along the lines of Finance Minister Petsche's plan which featured a special gasoline surtax, the Treasury was rescued from critical operating difficulties in July and August only by two extraordinary ECA authorizations of releases from the counterpart fund. The second of these releases, amounting to 30 billion francs, was granted with the mutual understanding that it would be paid back into the counterpart fund in November, as heavier revenue collections were made in the fall. The Government was still optimistic prior to 1 October that there would be sufficient improvement in collections to overcome its budgetary difficulties. The decision of 1 October regarding price subsidies and increased worker allowance was accompanied by an admission that higher taxes on profits would be necessary.

Even before this month, however, optimism concerning the economic and financial situation was not justified. The Treasury's operating situation has continued to be extremely tight. On the revenue side, June and July returns from the special gasoline surtax reached only about one-tenth of the average rate anticipated, although other budgetary receipts have held up well. On the expenditure side, previous efforts to curb the nationalized railroads' operating deficit finally bore fruit in August, but the drain that month on the Treasury's investment, reconstruction, and special accounts was severe, and is likely to be increasingly heavy. In addition, there is little prospect of turning as a last resort to the counterpart fund for substantial further relief, inasmuch as it stood at only about 5 billion francs after the regular September and October releases.

FRENCH AND SPANISH NORTH AND WEST AFRICA

B Apprehension lest the US abandon its special treaty position in Morocco is contributing to the acute discouragement of leaders of Istiqlal (the principal Moroccan nationalist movement), who are beginning to fear that the only means of furthering their independence aims is through collaboration with the

Communists. US insistence upon maintaining in full force its 1856 treaty with the Sultan of Morocco is recognized by the nationalists as the last and principal obstacle to complete French domination over the area. Istiqlal leaders also recognize realistically that US relations with France must take precedence over those with Morocco. Nevertheless, they see that, they can hardly hope to compete with the Moroccan Communist Party, which is also now espousing independence for Morocco, and which has a program for redressing social injustices that appeals to both rural and urban groups. The nationalist social program is severely handicapped by the proscription on their organization as a political party and their right to organize labor, and by the drastic French censorship. Nationalist leaders are convinced that Communists have infiltrated Istiqlal. Pressure from some sectors within the movement for collaboration with the Communists is becoming more acute, although Istiqlal's devotion to the Sultan probably prevents any formal combination. Should the Sultan be persuaded to accept the French invitations to visit Paris, however, his standing among nationalists might deteriorate to such an extent that his influence would be nullified.

Of all the nationalist groupings in French North Africa, Istiqlal has been the most consistently anti-Communist as well as the most pro-US. Although limited nationalist collaboration with the Communist Parties of Algeria and Tunisia has not produced an active joint organization, it does not follow that such a combination in Morocco would be equally innocuous.

ITALY

B Italian reaction to news of the atomic explosion in the USSR generally shows continued faith in the superior potential of the US, but at the same time reflects increased pessimism over the prospects for peace. Non-Communist labor in the northern industrial area was, by and large, not surprised by the announcement and seems to feel that the US stockpile, plus the inferiority of Soviet technical and industrial capacity, will serve to deter Soviet aggression. The small industrialists maintain their faith in US strength, but believe that the Soviets have more to gain and less to lose by war than the US. The announcement has engendered considerable pessimism among the intellectuals; many of them had hoped that the US monopoly would continue for some time. The extreme left (Communists and Left-Socialists), apparently without a directive as to what line to take, are rather mildly claiming that the USSR has had an atom bomb for some time, but has shown its love of peace by refraining from "threats" such as those allegedly made by the US.

Press references to the possibility of a US-USSR agreement suggest that the Communist "peace" campaign will now become more popular with war-weary Italians. The Italian Government, however, will be stimulated to accelerate its preventive measures for internal security, particularly with reference to Communists. Furthermore, the Italian Government will undoubtedly stress the increased strength of the Soviet war potential as a reason why Italy should receive substantial aid under the Military Assistance Program.

B From present indications, the Italian Government will pursue a cautious and moderate course through devaluation problems. Abandonment of the cross-rate agreement with the British, and eventual establishment of a dollar-lira rate at 650 or slightly above appear to be the major financial moves by means of which Italy will seek to adjust to sterling devaluation.

Smarting under the suddenness and extent of the British action, the Italian Government will probably seek to release sterling from its dollar peg (which has resulted in an appreciation of the lira against the pound) and have it traded independently so as to insure some degree of protection to important Italian exports to the sterling area (fruits and vegetables, cotton textiles, etc.) which would otherwise be overpriced on the British market.

Encouraged by the relative stability with which the lire met the first shock of sterling devaluation, the Italian Government asserts its determination to keep the lire-dollar rate below the present 650 maximum. It is likely, however, that strong pressures from exporters and other interests may force the Government to some moderate compromise between the present 50% exchange rate of 633 to the dollar maintained by the Government, and the last reported black market rate of 690. Such a compromise may be achieved at the 650 level or slightly above. If the Government proves able to hold this rate, the danger of rising costs of living and wage demands may be held to manageable proportions. A sign of its confidence in its ability to do so is evidenced in the Government's politically-timely move to reduce bread prices.

VATICAN

B The Catholic-Socialist conflict in Austria is symptomatic of the growing aversion of the Roman Catholic Church to collaboration with the Socialists in western Europe. Vatican attempts to enlist Catholic support for the (Catholic) People's Party in the forthcoming Austrian elections are evidenced in the recent proclamation issued by Austrian Catholic Action "in accord with the Episcopate", and published in the People's Party press. The proclamation announces that this year's elections will determine not only "the freedom and welfare of the nation, but also

the fate of the Church", and lists the points which must be included in any political platform supported by Catholic voters. Although the Austrian hierarchy has so far avoided antagonizing the Socialists by referring to the People's Party by name, it has recently become increasingly assertive.

Should the local hierarchy come out in direct support of the People's Party, the Socialists, who have attempted to avoid clashes on religious and social issues, might be moved to abandon their conciliatory position. While sharp controversy over these issues would promote antagonism between the coalition partners, it would probably not affect materially the outcome of the elections, which presumably will result in a People's Party plurality in any case; and it probably would not prevent continuation of a coalition Government. It would, however, make the task of forming a coalition more difficult, and, in combination with other points of difference, would jeopardize the stability of the coalition, the maintenance of which is important to US interests.