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WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

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For week ending
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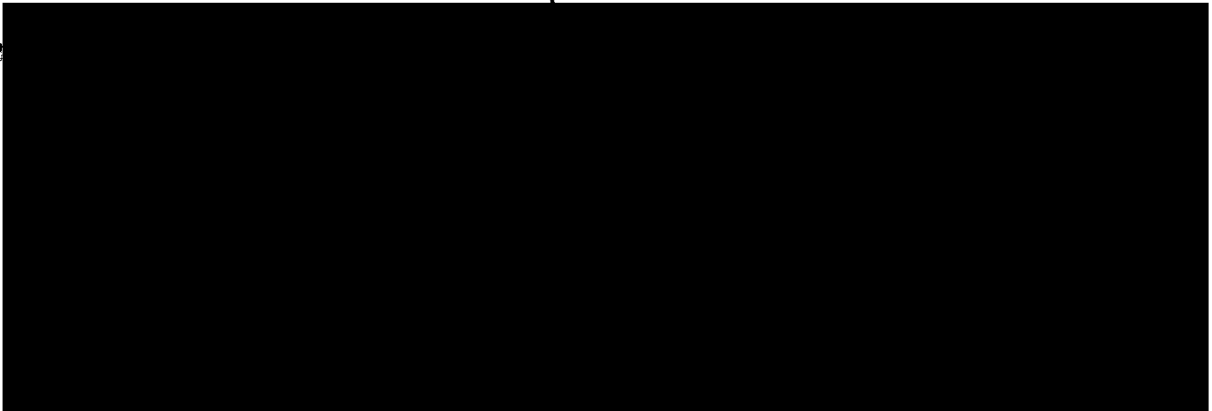
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FRANCE

A The partially-supported general strike in France on 25 November does not presage serious unlimited strikes in December. Nevertheless, prices will continue to rise and the Government's current wage and collective bargaining proposals will fail to allay labor unrest. The Force Ouvriere (FO), which called the one-day "warning" demonstration in order to save its following, thereby reversed its long-established policy of advocating price reductions rather than increases in money wages. It will continue, however, to be handicapped in its attempt to lead labor in its current demands, both by resistance from the Christian Confederation of Labor (CFTC) and its own wariness of affording opportunities for the Communist-led General Labor Confederation (CGT) to develop and control rank and file strike committees, first at the plant and then at the national level. In general, national labor organizations will not reach unity of action in the near future, fundamentally because the workers themselves remain deeply disillusioned with union leadership, are reluctant to lose pay, and lack equal determination to fight for higher wages.

The Government is prevented by its internal disagreements from taking decisive action to overcome the basis of the workers' dissatisfaction. It is not likely to authorize a wage increase for all workers, pending the return to collective bargaining. Its current efforts, moreover, toward that objective will not win labor's approval because: (1) all steps in the process will not be completed in December; (2) the Government's draft bill does not gear the mandatory minimum wage to a cost-of-living index, and it contains stringent provisions for compulsory arbitration; and (3) the Government has not clarified whether employees of the nationalized industries will gain the full advantages of collective bargaining.

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B The French are likely to be increasingly sensitive to any indications that US or UK officials may consider rearming western Germany. Although the Assembly acted favorably (334 to 248) on decisions for economic and political concessions to western Germany reached at the recent Foreign Ministers' meeting in Paris, Gaullist and Rightist opposition during the Assembly debate revealed widespread fear that security safeguards against a revival of Germany's war potential had not been adequately insured. Despite Schuman's insistence that the subject of German rearmament had not been "envisaged, discussed, or even mentioned" at the Foreign Ministers' meeting, French apprehension is likely to grow that gradual incorporation of Germany into western Europe may eventually involve military concessions.

NETHERLANDS

B Approval by the Netherlands Parliament of the Dutch-Indonesian agreement will probably be obtained in time for the transfer of sovereignty to the Indonesians by the end of December. The debate on the agreement is expected to begin about 6 December in the Second (lower) Chamber, and passage is not expected to be difficult in view of the announced support of the agreement by the conservative and influential leader of the Catholic group in the Chamber. Conservative opposition in the First (upper) Chamber probably will be stronger, and the two-thirds majority required will not be easy to secure; approval of the agreement will hinge upon two or three votes. Most of the Dutch seem to realize, however, that the agreement is the best obtainable and that open warfare in Indonesia would probably result from Dutch rejection of the Round Table Conference decision.

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ITALY

A Nationalist sentiment similar to Titoism has spread to the ranks of the Italian left Socialist Party (PSI), furnishing orthodox Socialists in the PSI with an opportunity to press for a break with the Communists. Such a break would substantially undermine Communist strength in Italy and would create a group of potential adherents to any new independent Socialist party. The nationalist sentiment will probably make itself felt among all but the pro-Communist left wing of the PSI, which at present includes the directorate. Although Italian Socialism has traditionally been international-minded, it never tolerated foreign domination of its policies until it became subservient to Italian Communism at the end of World War II. The nationalist tendency is evident in several developments. Recently ten members of the PSI made an unauthorized visit to Belgrade at the invitation of Yugoslav labor union officials, and for this action were denounced by the PSI directorate. The PSI center faction is showing dissatisfaction with the Party's compliant attitude toward the Italian Communist Party and Soviet foreign policy. Furthermore, a centrist leader, Riccardo Lombardi, is reported to be on Tito's payroll. Finally, some PSI members have urgently recommended that their party exercise vigilance to prevent infiltration by Yugoslav agents.

B It is improbable that any solution of basic Italian financial problems in relation to the sterling area will be achieved at the meeting of the Anglo-Italian Joint Economic Council in Rome on 12 December. Two major factors will govern Italian policies at this meeting: (1) the Italian Government's credit balance of 80 million inconvertible pounds; and (2) Italy's deliberate holding of lira depreciation relative to the dollar to about 8% thus far, in order to prevent higher import prices and inflation. As a consequence of the sterling devaluation of 30.5% relative to the dollar, and the Anglo-Italian cross-rate agreement of 1948, the lira has appreciated in terms of sterling. This has handicapped Italian exports to the sterling area and to those areas in which Italian and sterling area exports compete. Exports of fruits, vegetables, wines, and cotton textiles, politically and economically important to Italy, have been particularly affected by this situation.

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The Italian mission, therefore, may first make some effort to break the cross-rate agreement in order to satisfy Italian exporters who demand that the Government maintain a higher pound-lira rate to protect Italian exports to the sterling area while still hold the dollar-lira rate down. The Italian mission will not, however, press this proposal against expected strong British opposition. A large portion of the Italian 80 million pound balance was accumulated. Through pre-devaluation speculation by Italian exporters, who took advantage of the wide gap between the Government-supported cross-rate of \$4.03 to the pound, and the much lower black market rate. If the Italian Government now maintained a cross-rate higher than \$2.80 to protect exports, the same speculation would be encouraged (the more so as the dollar-pound cross-rate is reported to be as low as \$2.40 on the Italian black market). As a result, Italy's sterling balances would continue to rise.

To find an outlet for these accumulated balances, Italy will renew pressure upon Britain to permit Italy to invest these sterling balances in Italian emigration and investment in British-controlled areas of Africa. The UK has given little encouragement to past proposals along these lines, and which it would probably still find unacceptable for both political and economic reasons.

Italy will resist any British suggestions that it pursue dual official dollar rates (a low one for imports, and a high one for exports), regarding them as unacceptable to the US and contrary to the Hoffman proposals. Italy will use the failure of various initial proposals to gain a form of preferential commodity agreement or a concession from the UK which will provide some protection to Italian fruit and vegetable exports, and, to a lesser degree, for cotton textile and wine exports. Although an agreement may be achieved, the larger problem of the sterling balances will remain unsolved.

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