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CENTRAL INTELLIGENCE AGENCY

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DIVISION WEEKLY

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WEEKLY SUMMARY

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## AUSTRIA

B When ECA aid ends and an Austrian treaty is concluded, an efficient and stable government for Austria will rest in large part upon two factors: (a) the degree to which the political influence of vested interests is controlled; and (b) the ability of responsible Austrians of all political parties, but especially the People's Party, to realize that the nation's best interests impose certain limitations upon their activities. The People's Party, which is Austria's largest, and is at best a heterogeneous combination of business, farmer, and white collar interests, is currently suffering from illnesses arising from its composition and from the showing of some of its candidates in the October elections. These maladies emphasize the necessity for some shifts of policy and point up the fact that long-range improvement in the Party's outlook will come only from a deeper understanding of Austria's national interests.

The October elections showed that party rank-and-file was not entirely satisfied with the economic policies pursued by the party leadership, dominated by the industrialist element, which has entrenched itself in strategic government posts, and in the nationalized industries. The industrialists, and business interests, who have profited personally from the political regime, have continued to press for economic programs to free Austria's still unhealthy economy from controls limiting corporation profits, and have frequently failed to utilize effectively Austria's limited resources. Although the People's Party's major competitor, the Socialist Party, lost more in the elections, it (and also the Union of Independents) ran an effective campaign against governmental corruption, price rises, uneconomical fiscal programs, and monopolistic practices.

People's Party agreement to Socialist administration of the nationalized industries was the first indication that the industrialist throttle-hold on the Party was being weakened. In more recent weeks, legislation on raw material controls, price rollbacks, and promises of cartel controls -- all opposed by the business group -- have been announced. Various commercial scandals involving People's Party members have increased the Party's realization that a clean-up and a return to better politics is in order.

Despite the fact that the industrialists remain the strongest element in the People's Party, Austria today has its best opportunity since the War to mature

politically. ECA presently exerts a continuing pressure on Austrian officials to pursue sound economic practices. The Socialists, who have a better record of compromising in the interests of the national economy, are now in a better position to watch their coalition partner. The improvement in the Austrian ECA organization, and the appointment of a non-political and forceful person as its head, are promising. This is not to say that business groups will not attempt to operate as usual; and People's Party leaders within the Government still will probably tend to cover up for business and to take ineffectual corrective measures.

#### FRANCE

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The French military campaign against Vietnamese resistance forces will probably not be hampered by the current political difficulties of the Government in its defense of proposed increases in both expenditures and taxes for 1950. Although budgeted expenditures for the campaign in Vietnam are being only slightly increased in 1950 over 1949--from 107 to 115 billion francs--the French are likely to spend a considerably larger sum for this purpose in the coming year. As in 1949, the difference will probably be handled by a bookkeeping operation of which the public is seemingly not aware. The Assembly's Finance Commission has already approved the proposed military budget of 420 billion francs (18.3% of the total budget, or 2.3% less than in 1949), including the somewhat larger credits directly requested for the Vietnamese campaign.

The difference between budgeted and actual expenditures for the Vietnamese campaign was handled in 1949 in the French Treasury's special account with the Bank of Indochina. The latter issued currency (piastres) as needed to meet deficits in current military expenses in Vietnam. Since free transfer of capital from Vietnam to France is permitted, the Bank of Indochina loans have resulted in capital transfers to France, necessitating repayment to the Bank from the French Treasury in francs.

The net burden on the French Treasury imposed by these payments to the Bank of Indochina, beyond budgeted expenses, will probably run to about 60 billion francs for 1949, equalling about one-third of the Treasury's inflationary financing for the year. Although Minister of Defense Rene Pleven and Modernization Director Jean Monnet have endeavored recently to have the piastre-franc transfers restricted, Minister of Finance Maurice Petsche has successfully contended that such action

would create inflation in Vietnam critically detrimental to the Bao Dai regime; and would in effect read Vietnam out of the French Union.

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The hostility of some French economic and political groups towards broader liberalization of trade will make more difficult the Government's current negotiations for the advancement of western European economic integration. The French are proceeding cautiously in the current "Fritalux" discussions with Benelux and Italy, showing coolness toward the admission of Germany without the UK, and opposing extensive removal of quantitative import restrictions in the near future. This caution is largely a reflection of the delicate political position in the Bidault Government under pressure from economic groups.

Labor, industry, and agricultural groups have already shown hostility to the Government's removal of some import quotas. The farm bloc (CGA) and the employers' bloc (CNPF), both professing firm support for the principle of over-all liberalization of trade, are firmly opposed to any regional integration resulting in competitive imports. Labor is especially wary of increased unemployment. Fear of more German competition, especially in the steel industry, is prevalent among both employers and labor.

Spokesmen for the Socialists and the Independents have contended that the UK must be included in any plans for western European integration. Because the French see the UK as an essential counterbalance for west Germany in an integrated Western Europe, France is likely to agree to west Germany's admission into any economic union only after reaching agreement with the UK. This delay, however, in steps toward the economic integration of western Europe disappoints ECA's expectations that France would take the lead in progress toward this goal.

#### FRENCH AND SPANISH NORTH AND WEST AFRICA

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The French Government's decision to refer the question of US capitulatory rights in Morocco to the arbitration of the International Court of Justice may result eventually in the loss of the unique US position in Morocco and in turn encourage the Moroccan nationalists toward a rapprochement with the Communists. Conceivably, this arbitral action might boomerang on the French, by

precipitating an investigation of France's application of the 1912 Treaty of Fez, by virtue of which France controls Morocco.

Appeal to the International Court will occur upon the expiration on 31 December of the temporary US assent to the application of French Moroccan import regulations to US businessmen in Morocco. The French claim that this appeal is the best solution and the only alternative to the current, unsatisfactory agreement. The French insist that the appeal to arbitration is not an unfriendly gesture, but the fact remains that a deep resentment has developed in the French Government and among the French people toward the privileged position enjoyed by US interests in Morocco.

A judgment favorable to France would abrogate the 1836 treaty between the US and the Sultan of Morocco, and would necessitate the negotiation by the US of a treaty with France, relegating US trading interests to the less favorable level of those of other nations. Annulment of this century-old treaty would deprive the Sultan of the greater part of his restricted sovereignty, and, consequently might alienate the nationalists from the US.

#### BELGIUM

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Belgian unemployment is expected to remain at the present high level, which may even become higher because of: (1) the continuing depressed state of the coal industry; (2) reduced activity in the steel and metallurgical industry; (3) the inability of Belgian seasonal workers to find employment; and (4) the increasing numbers of unemployed or striking Belgian frontaliors (people who live in Belgium and work in France). The November average number of unemployed of 260,700 compares with the October figure of 248,500, and a continued decline in Belgian industrial activity will doubtless throw more out of work. The Government's program to combat unemployment through public works, low cost housing construction, and the establishment of new industries will take some time to carry out; meantime, continuation of the high level of unemployment will result in increased labor protests with unfavorable political consequences for the coalition Government.

ITALY

A A split in the Italian Communist Party (PCI) may occur if Tito remains in power until the Italian local and regional elections in the spring of 1950. A problem is posed for the PCI, which has preferred to be a mass party, by the growing "nationalist" deviation encouraged by Tito's successful defiance of the Cominform.

The PCI, pursuing a generally moderate policy, has had as an asset the poor socio-economic conditions in Italy and its dynamic program for the alleviation of such conditions has been its major attraction. On the other hand, the Party's international stand (subservience to USSR foreign policy, and opposition to ERP despite its obvious benefits to the nation) has been a definite cause of Party stress and strain.

Because many in the Party have been dubious about its international stand, the success of Tito's nationalist Communism is more and more encouraging similar deviation in the PCI ranks. Deviationist elements are active in varying degrees of strength in many large cities of Italy. Efforts are being made, especially by Party members who fought in Spain, to orient the Party around Italy's interests rather than around the Cominform. The local Party in the industrial city of Terni has already formed a nationalist group. A small group of PCI members were recently purged for visiting Belgrade. Although no outstanding Communist figures have yet been clearly connected with a nationalist movement, several are under suspicion. Some of the PCI leaders may well favor a nationalist re-orientation of the Party, sensing the potentially wide appeal of such a shift.

In this situation PCI leaders faithful to the Cominform are faced with a dilemma. If they attempt the large-scale purges that may prove progressively necessary if Tito remains in power, they will also be severely weakening the Party as a mass organization, and will damage any chance it has of success in the 1950 elections. If they fail to purge extensively, the heresy will grow within the Party.

A moderate policy with limited "purging" will probably prevail until the communal and regional elections in the spring. Failure of the Cominform, however, to eliminate Tito by that time, and an unsatisfactory PCI showing in the Italian spring elections, would probably result in:



(1) the "official" displacement of the moderate Togliatti leadership by Longo-Secchia control, meaning a direct action policy and more discipline; and (2) the emergence of a schismatic national Communist party.

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The scheduled reshuffle of the Italian Cabinet in early 1950 will further consolidate Christian Democratic control of the Government, but wider disagreement among supporters of the Christian Democratic Party will become manifest. Whether or not Saragat and other moderate Socialist ministers return in January to the Cabinet from which they withdrew in November, the already dominant influence of the Christian Democrats will be increased. Saragat's group has lost a large part of its following to the new Unitary Socialist Party (PSU). Moreover, the Christian Democrats are arranging for a greater concentration of power in their own hands through extension of the activities of certain economic ministries held by them. At the same time, however, the greater powers of the Christian Democratic leaders, together with abatement of the Communist threat, will tend to sharpen differences among the heterogeneous supporters of the Christian Democrats, particularly with regard to social and economic policies.

Not only are the Left and Right sections of the Party in conflict on these issues, but the Vatican itself, and its lay organization, Catholic Action, are similarly divided. A fundamental difference of opinion between the Christian Democratic National Council and the Christian Democrat-sponsored Free Confederation of Italian Workers was revealed when the former backed a plan by Christian Democratic Deputy Fanfani prescribing rigorous anti-strike legislation, while the latter strenuously opposed it. Similarly, there have been indications that the Vatican Undersecretaries of State, Tardini and Montini, are at odds on various basic policies of the Government, and they take different sides among the elements in Catholic Action. Moreover, the new Socialist group (PSU) will be able in Parliament to exploit issues on which agreement has not been achieved within the Christian Democratic Party.

The widening division within the Christian Democratic Party and among its supporters would complicate the achievement of important legislation. It could even

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bring about realignments which would result in the emergence of a new Catholic Party sparked by a militant Catholic Action leader, such as Gedda, who aspires to develop a Government vigorously reformist in the field of social welfare and at the same time closely identified with the Vatican.

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