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WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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Included in this issue is a special article on:

Progress of French Tax Reform Program

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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

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For week ending
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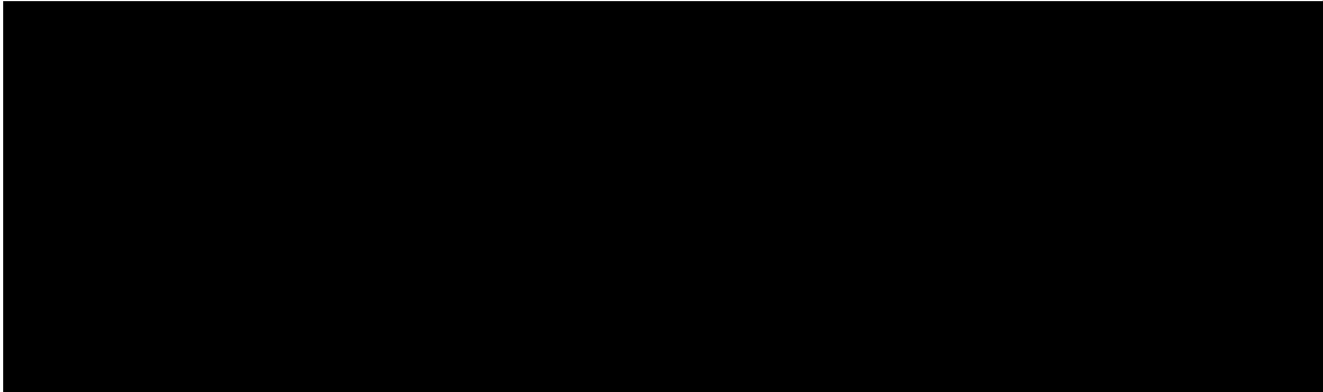
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AUSTRIA

B Austria's unemployment problem will demand more attention during 1950. Although Austria has had close to full employment since the end of the War, this phase appears to have ended. The 1949-50 midwinter unemployment levels have reached almost 10% of the total working population, a postwar record. Maintenance of full employment during 1950 will be difficult because: (1) short-run unemployment is expected from the developing rationalization of industry, (2) any contraction of administrative activities by the Western occupation forces, and Austrian Government plans to eliminate surplus administrative employees, will release substantial numbers of employees. (3) the perennial surplus of white collar workers (presently about 15,000) will probably continue, and (4) the progressive completion of reconstruction and reconversion activities will eliminate large numbers of workers. The absorption of workers from the construction industry will prove especially difficult, because there have been about four times as many persons employed in this industry as there were before the war.

The Government, under rising labor pressures to take energetic steps, will be only partially successful in alleviating unemployment in the construction industry, if ECA, as expected, releases funds for housing and capital construction. Consequently, higher levels of unemployment in 1950 will probably force the Socialist Party to follow more aggressive labor policies to combat Communist exploitation of labor grievances.

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FRANCE

A The Bidault Government's chances of remaining in power during the next few weeks are improved. The recent wave of strikes for higher wages could have seriously weakened the Government's stability, but the Communist threat to spread social disorder and sabotage the MDAP has momentarily made the Government more cohesive. Both the anti-sabotage bill recently passed in the Assembly and the gradual subsiding of the strike wave have temporarily reduced the threat of Government collapse and the Communists' ability to spread disorder throughout the nation. Government unity appears, however, to be only temporary, and dissension among political parties is likely to be again intensified when controversial domestic issues are debated in Parliament in the near future.

At this time, both the Socialists and Radical Socialists are reluctant to be responsible for the fall of the Government, especially in the face of the Communist threat to the security of the nation. The recent defection of the Socialists from the Cabinet has left Bidault with a shaky minority Government. The Socialists are giving Bidault only conditional support, and could cause a political crisis, although they are reluctant to follow this course since they hope, over a period of time, to regain some of labor's support by defending the workers' interests from outside the Government. Also, the Radical Socialists could refuse to support the Government on a wage-price issue. However, the party will probably be more hesitant to take this step prior to the reform of the present electoral law.

Bidault, who has consistently demanded votes of confidence in the Assembly in order to remain in power, will probably continue to rely on this technique until forced out by an adverse vote or a motion of censure. Thus far, the opposition has been unable to muster the total of 311 votes constitutionally required to overturn the Government.

B The current wave of strikes in France may recede, despite the attempts of the Communists to impede MDAP shipments by exploiting labor's genuine grievances. The Communists are making strenuous efforts to incite a peak number of walk-outs when the first shipments of materiel arrive. The ostensible aims of the Communists are large wage increases and a cost-of-living bonus. Their real political purpose, however, is understood by the workers,

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who are apathetic and unlikely to assist the Communist effort. Not only are strikers (weekly aided by the unions) financially unable to hold out over a long period, but they are increasingly resentful of being used as tools for the furtherance of Communist objectives. These factors, and the growing tendency of the non-Communist unions to act independently, are working to the advantage of the employers. In the transport strike, where only the General Confederation of Workers (CGT) remains out, the non-Communist unions have accepted the Government's terms.

The strike movement, which mushroomed on a nationwide basis two weeks ago, still claims a large number of workers in new strike areas, but many of the original strikers (including 50,000--or about one-third--of the striking Paris metalworkers) have accepted the terms of their employers, and have returned to work. Union demands, which, according to reports, range as high as a 25% wage increase in some nationalized industries, are being pared down by private industry, and, to an even greater extent, by the Government, in final agreements. The Government is financially more hard-pressed than high-profit private employers, and is also more interested in preventing inflation and in stabilizing the national economy. It is, therefore, likely that in the immediate future labor as a whole will gain wage increases averaging between 5 and 8%, but no more than a minority of the workers are likely to receive a temporary 3,000 franc bonus each month.

FRENCH AND SPANISH NORTH AND WEST AFRICA

A The US will find it more and more difficult to preserve the good will of both sides while attempting to smooth the road to a solution of the French-nationalist conflict in North Africa. Increasing French sensitivity to any hint of US influence on Arab activities is evident, coincidentally with more outspoken nationalist bids for US support.

A fairly strong undercurrent of French uneasiness over US policy, and even some suspicion of US motives, is revealed in recent speeches, newspaper articles, and private conversations. A French official, expressing what is probably the prevailing opinion among representative Frenchmen in Algeria, recently emphasized France's grave problem in North Africa. He charged the US with taking an

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unrealistic attitude toward colonial countries, asserted that the Atlantic Charter had done "harm", and suggested that the US must realize that the French are going through a very difficult period, and that their nerves are "jumpy".

Meanwhile, a spokesman for the Tunisian nationalist labor union (UGTT) has told the US Consul General at Tunis that in trying to avoid offending the French, the US underestimates the importance of the Arab attitude in case of war with the East. He indicated that the Arabs were not yet committed to either camp and were open to persuasion by concrete examples of US friendship. US pressure on France, he also contended, would force the French to carry out reforms, while ECA aid would be of more benefit to Tunisia if allocated directly, rather than through the French.

It may be inferred from the spokesman's remarks that the UGTT is not likely to transfer its affiliation from the pro-Communist World Federation of Trade Unions (WFTU) to the International Confederation of Free Trade Unions, despite the pending invitation and the greater ideological attractiveness of the latter, as long as immediate gains appear to be more likely through association with the WFTU.

BELGIUM

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King Leopold's failure to receive a substantial majority in the 12 March "popular consultation" has caused a bad split in the Cabinet, will precipitate a stormy debate in Parliament, and will make an ultimate settlement of the issue difficult. Although Leopold obtained 57% of the total vote and was supported in seven of the nine Belgian provinces, he was decisively defeated in the two thickly-populated, industrial, Walloon provinces of Liege and Hainaut, as well as in Brussels. The Socialists and Communists are, of course, strongly opposed to Leopold. Within the Government coalition, some of the Liberal Ministers and some of the Catholic Ministers are against the King's return. Premier Eyskens himself is reported to be threatening to resign if the King does not abdicate. If Eyskens resigns, the pro-Leopold forces would have extreme difficulty in forming a Cabinet. The easiest solution seems to be for Leopold to abdicate voluntarily. He did, however, receive more than the vote (55%) he personally set as necessary to his return, and he has refused to abdicate during the past five years of bitter controversy.

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THE NETHERLANDS

B Dutch contributions to the Western Union or Atlantic Pact systems will be very limited for some time, even with the reduction of Dutch military commitments in Indonesia. Although the MDAP would permit the eventual equipment of four divisions, the inadequacy of training personnel and facilities will prevent the formation of an effective and readily mobilized Army. Adequate instruction with modern equipment cannot be given to the men drafted in 1949, who are presently being trained as the first contribution of the Netherlands to a western European defense force.

The defensive capabilities of the Air Force are, at present, extremely limited, and the combination of restricted training facilities and a pre-World War II concept of Air power among some of the high command is the most difficult obstacle to overcome. The Navy, however, might be rapidly integrated as a capable force into a Western Union Navy. Though it will not be expanded appreciably, the quality of its personnel is high, and its ships are relatively modern. Morale in the Armed Forces is considerably improved as a result of the Indonesian agreement, and the growth of any "neutrality complex" in the Netherlands in the near future is not expected to be sufficiently widespread to deter programming for Western Union defense.

ITALY

B Land seizures in Italy, which weaken the prestige of the Government and benefit the Communists, are likely to become widespread unless concessions are promptly made to the peasants. The main credit for the seeming success of the seizure movement will go to the Communists, who will gain in Party and labor followers.

In one important respect, the recent large-scale land seizures by south Italian peasants differ from those of last fall. The peasants' action is now for the first time receiving the support of the non-Communist trade union organizations, as well as of the Communist-dominated General Labor Confederation (CGIL). This change in policy of the free federations evidences awareness on their part that the issue of land reform is too important for them to stand aloof and permit the Communists to gain prestige by themselves. It also indicates their determination to work, even in ways regarded as illegal, for implementation by the Government of its pledges to the peasants.

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It is doubtful, however, whether this turn of events will appreciably hasten the implementation of an overall agrarian reform program. Despite the retention of Agriculture Minister Segni in the Cabinet, and the withdrawal from the Cabinet of the conservative Liberals, progressive hopes may be dashed. The draft law for national land reform has still to be submitted to the Cabinet, and Parliament has yet to approve the bill before it for restricted land redistribution in Calabria.

The local elections, scheduled for this spring, may furnish definite indications that the Government has suffered by its procrastination in grappling with land reform.

THE VATICAN

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Traditional Vatican support for corporativism as a political and economic system is being reinforced by the emergence of Giuseppe Dossetti's left-wing Christian Democratic following as a political force to be reckoned with in Italy. The Dossetti group, which controls about one-third of the Christian Democratic Party but holds only a few minor undersecretaryships in the Cabinet, insists that Italy should become something akin to a corporate state. It also wants Italy to be run by an all-Christian Democratic Government, rather than a coalition, and is anxious to acquire major Cabinet posts, particularly economic posts in order to develop its plan.

The complete dedication of Dossetti's group to Roman Catholicism makes it influential even among Christian Democrats who disagree with its social principles. Premier De Gasperi is sharply aware of the difficulty of reconciling the Dossetti policies with those of the rest of his heterogeneous party, and is deeply alarmed by the possibility that the Dossetti group might eventually dominate the party.

Dossetti's group could expect support from those financial interests which are interested in the formation of large trusts made up of related industries (such as textiles and chemicals), which could be developed to control the economy of Italy along the vertical lines of the old Fascist system.

Two aspects of Dossetti's aspirations are in conflict with US goals for western Europe. The reestablishment of a corporative system in Italy would probably conflict with

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the US concept of an Italian economy integrated into that of western Europe, a concept which excludes cartels and includes liberalization of trade. Furthermore, Dossetti's formula of "total power for the Christian Democrats" suggests an undemocratic approach to Italian domestic politics, while his slogan, "the self-sufficiency of Catholicism", indicates that an Italian Government dominated by this group might tend to seek a union of Catholic nations rather than attempt to cooperate in the Council of Europe as it is now constituted.

S E C R E T

SPECIAL ARTICLE

PROGRESS OF FRENCH TAX REFORM PROGRAM

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The French Government's fiscal reform efforts, though severely handicapped by tradition and political considerations, are yielding direct results which will tend gradually to promote French economic and political stability in keeping with major US aims. These reforms in the tax system will progressively: (1) tend to bolster public faith in the Government's financial position and hence reinforce the present hard-won stability of the franc; (2) permit a more equitable distribution of the tax burden, and thereby lessen social discontent and stimulate business activity; and (3) render possible some non-inflationary increases in expenditures for defense and for higher wages in the nationalized industries.

In view of the chronic political instability and the steady increase of tax rates since the War, any expansion of total tax receipts now depends on thoroughgoing reforms in methods of levying and collecting taxes. Tax evasion, which is chronic in France and became a patriotic duty during the occupation, has been recently estimated to run as high as 400 billion francs a year, or over 20% of normal tax receipts.

A comprehensive reform project was initiated in December 1948, affecting the tax structure, voluntary tax declarations, and collection methods. As a result, enforcement efforts in 1949 produced a revenue 60 billion francs greater than in the previous year. Furthermore, better public cooperation in the Government's effort was apparent, as declarations for income tax purposes led to a total assessment in 1949 of 280 billion francs compared to the Government's original estimate of 200 billion for that year.

This year, further substantial benefits are likely to be derived from the Government's fiscal reforms. For one thing, the ratio of income tax collections to total Government revenues is expected to rise from 16% in 1949 to 24% in 1950, even though income tax rates have been held fairly constant. Better enforcement alone is expected to result in 80 billion francs of additional revenue, of which 10 billion is anticipated from a "single control" system being introduced for the auditing of business tax records.

The relative success of fiscal reform will be attained in the face of serious handicaps. The farmers' relatively large income is not tapped equitably by the

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Government, especially because of the obstacles raised by the politically powerful agricultural interests. In 1949, these interests even obtained in Parliament a ceiling on the total revenue to be collected from farmers, and their final tax bill amounted to only 1% of their gross income. In view of the prevalence of small, individually-owned enterprises, the backwardness of bookkeeping methods, and the traditional use of cash instead of checks, fully effective fiscal controls must await a modernization and rationalization of the nation's entire economic structure.

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