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THE OUTLOOK FOR WESTERN EUROPE¹ OVER THE NEXT DECADE

THE PROBLEM

To estimate the outlook for Western Europe over the next decade.

ASSUMPTION

Germany will remain divided and Austria will continue under occupation during this period.

CONCLUSIONS

1. Western Europe has staged a remarkable recovery from World War II, but its economic and political foundations remain fragile and Western Europe will be troubled by domestic divisions and by conflicts of national interest, especially between France and Germany. The course of events within Western Europe over the next decade will be largely determined by developments within the UK, France, Italy, and West Germany, by relationships among these four states, and by the reactions of these states to developments elsewhere in the world.

2. If world economic conditions remain reasonably favorable, Western Europe will probably experience moderate economic growth. A moderate recession in the US or a trend in US policy toward further protectionism would intensify Western European tendencies toward economic nationalism, and would probably reverse the postwar trend toward economic cooperation. A sharp or pro-

longed depression in the US would lead to a cessation of economic growth and seriously endanger Western European political stability and cooperation.

3. We believe that moderate governments will continue to rule in the UK and in the smaller democracies of Western Europe and, providing there is no serious European depression, will very likely continue in West Germany. The threat to political stability in Western Europe will remain greatest in France and Italy. France and probably Italy are likely to be ruled by weak or indecisive governments for at least the next several years. However, the inability or unwillingness of these governments to meet popular demands for economic and social reforms might produce explosive situations within the period of this estimate.

¹ For the purposes of this estimate, "Western Europe" includes the UK, France, West Germany, Italy, Belgium, the Netherlands, Luxembourg, Austria, Sweden, Denmark, Norway, Switzerland, Spain, Portugal, and Ireland.

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4. The Communist threat is greatest in Italy. Nevertheless, we do not believe that the Italian Communists and their left-wing Socialist allies are likely to attain power within this period, either by parliamentary means or by force. The strength of the French Communist Party is not likely to increase sufficiently to enable it to gain membership in the Cabinet or to take over the French Government during this period.

5. If West Germany can maintain a depression-free economy, we estimate that constitutional and responsible government has an excellent chance of continuing in that country. Should serious economic difficulties develop, there would almost certainly be a growing trend in West Germany toward a more authoritarian and nationalist type of government. This trend would be intensified if a moderate democratic government appeared unable to pursue effectively German national aspirations. While West Germany will almost certainly preserve a pro-Western orientation during the next few years, it will become an increasingly restive and independent associate, and will seek great power status.

6. Franco-German relations will continue to be the central problem of any common Western European political or military effort. We believe that the French will ultimately be forced to accept some arrangement for West German rearmament, but that they will do so reluctantly and hesitantly, and probably in such a manner as to detract from the effectiveness of the arrangement.

7. NATO will almost certainly remain the center of the Western security system. The Western European NATO states will remain convinced that the continued presence of US forces in Western Europe is vital to their security and to the prevention of war.

8. Unless a new series of Soviet actions stimulates increased efforts toward rearmament, the military forces of Western Europe at best will probably remain at approximately their present size, at least until the rearmament of West Germany has become effective. There will almost certainly be a significant increase in the quality of these forces.

9. We believe that Western Europe is unlikely to go much beyond the present degree of integration during the period of this estimate. Even if EDC and EPC are accepted in some form, open reservations and concealed opposition will almost certainly prevent full attainment of the EDC and EPC objectives. On the other hand, even failure to ratify EDC would not in itself destroy the military cooperation among Western European states now existing in NATO, nor exclude the possibility that NATO might be enlarged to include West Germany.

10. A great and recognized growth in nuclear capabilities may increase the difficulties presently felt in maintaining an effective Western coalition under US leadership.²

² For more detailed views, see NIE 100-54, "Probable Effects of Increasing Nuclear Capabilities upon the Policies of US Allies," (26 April 1954).

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DISCUSSION

I. INTRODUCTION: WESTERN EUROPE TODAY

11. The 275,000,000 people of Western Europe include a large proportion of the world's intellectuals, administrators, and skilled workers and farmers. They form one of the great producing groups in the world; in 1953 their industrial production was about two-thirds that of the US and exceeded that of the entire Soviet Bloc. Western Europe, taken as a whole, possesses a substantial military establishment, in terms of numbers, quality, and equipment. Thus, Western Europe is an important factor in the world balance of power.

12. The decline of Europe from its dominant military and economic position in the world began several decades ago, and has become more pronounced and more obvious as a result of World War II. The threat of Soviet expansion has forced most of the countries of the region to ally with the US. While they realize that the alliance is necessary to prevent Communist aggression, they resent their loss of full control over their own destinies.

13. The fifteen states of Western Europe possess a large degree of cultural unity and share many common traditions, beliefs, and institutions. While there are obvious differences in political organization and economic development among the various states, the area as a whole is sufficiently homogeneous so that important developments in one state will almost certainly influence the others. Most of the smaller countries are stable and prosperous and are not likely to take drastic actions which would disturb the political and economic patterns of Western Europe as a whole. The course of events within Western Europe over the next decade will be largely determined by developments within the UK, France, Italy, and West Germany, by relationships among these four states, and by the reactions of these states to developments elsewhere in the world.

14. Western Europe has made a remarkable recovery since the end of World War II, due both to its own efforts and to US aid. The

aggregate gross national product of the region in 1952 was higher than ever before (30 percent greater than in 1947 and about 25 percent greater than in 1938). A region which was militarily weak in 1947 now has substantial defense forces.

15. All of the states of Western Europe except Spain and Portugal are ruled by moderate democratic governments, and no Communist has held a ministerial post in any country since 1947. Some progress has been made toward establishing political and economic organizations for a Western European community.

16. Western Europe's recovery has not removed the difficulties caused by domestic divisions and clashes of national interests. Within some states, such conflicts as those between capital and labor and between clerical and anticlerical forces continue. The rapid recovery of West Germany has revived French fears of German domination. Resentment over any US pressure and resistance to this pressure have increased. Although the ability of Western Europe to resist external Communist pressures has increased, the Communist threat now appears less imminent to many leaders of opinion and there is greater eagerness to negotiate differences with the Communist states.

17. In spite of the progress made since 1947, Western Europe's present level of prosperity and stability affords but a precarious basis for solving the problems which remain. The great question concerning Western Europe during the next decade is this: has Western Europe reached an economic, political, and military plateau above which it is unlikely to rise and from which it may descend, or will it continue its progress toward a sound economy, political stability, and greater military strength?

II. PROBABLE DEVELOPMENTS OVER THE NEXT DECADE

Probable Economic Developments

18. Western Europe does not constitute an economic entity, and few generalizations will

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apply equally well to all the economies of Western Europe for the period of this estimate. However, the states of Western Europe have many economic problems in common, and economic relationships among most of these states are closer than ever before.

19. If world economic conditions remain reasonably favorable, Western Europe's aggregate gross national product is likely to increase by about 30-35 percent during the next decade; this is approximately the rate of growth anticipated in the US, but less than that expected in the Soviet Bloc. The rate of growth in West Germany probably will be somewhat greater than that in any of the other major Western European countries. As dollar aid declines, fears of deficits and of inflation and sensitivity to political pressure for increased social services may so restrict investment in some countries as to keep economic growth below the rate projected above. Moreover, Western Europe's external trade must expand if the member states are to achieve the projected rate of economic growth, since Western Europe is far more dependent than the US or the USSR upon imports of raw materials and foodstuffs.

20. Under favorable economic conditions in the non-Communist world, Western Europe's present tendency toward liberalization of trade is likely to continue. However, Western European confidence that a prosperous Free World economy can continue to operate with decreasing restrictions and controls remains shaky at best. Any appreciable adverse development would quickly stimulate the growth of various insulative, protectionist, and restrictive measures.

21. Any movement toward economic union, as distinct from looser types of cooperation, is likely to be confined to the six Schuman Plan countries. It is likely that these countries will take some steps toward the formation of a free trade area. It is also possible that these countries will set up certain supranational agencies, including a monetary agency and a planning agency responsible for advising the six governments on monetary and fiscal policies. This might lead eventually to a common currency, but steps of this sort are essentially

political and will depend on political trends. Economic cooperation in Western Europe as a whole, and British Commonwealth cooperation with Western Europe, are not likely to develop much beyond the present stage of consultation and coordination.

22. We believe that the Western European dollar problem will be smaller and more manageable during the period of this estimate than it has been during the past decade. However, the balance which Western Europe as a whole has achieved in its commercial accounts with the dollar area still depends on import controls; and some countries, notably France and Italy, still depend on US aid. The fear of a recurrence of the dollar shortage as US aid declines will delay dismantling of trade and exchange controls, particularly if the demand for Western European exports should also slacken.

23. Western Europe's trade with the Soviet Bloc is likely to remain small in relation to its total trade with the rest of the world as long as political tensions persist and the Bloc continues to pursue its policy of self-sufficiency. Even small trade offers by the Soviet Bloc, however, if concentrated on certain countries, would probably meet with some success in undermining the Western system of strategic export controls. Increased dependence on trade with the Soviet Bloc may open some of the weaker Western European countries to Soviet political influence, making them more cautious in their attitude toward the USSR and less receptive to US leadership. Western European vulnerability to Soviet trade offers would increase considerably in the event of an economic recession, or in the event of increased restrictions on trade among Free World countries.

24. A moderate recession in the US or a trend in US policy toward further protectionism would intensify Western European tendencies toward export subsidies, import restrictions, and other manifestations of economic nationalism, and would probably reverse the postwar trend toward economic cooperation. A sharp or prolonged depression in the US would have serious economic and political consequences in Western Europe. It would reduce direct and

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indirect dollar earnings. More important, it would depress business expectations and confidence in general, lead to a cessation of economic growth, and thus seriously endanger Western European political stability and cooperation. It would on the whole probably increase the economic cohesiveness of the sterling area and the Commonwealth.

Probable Political Developments

25. We believe that moderate governments will continue to rule in the UK and in the smaller democracies of Western Europe and, providing there is no serious European depression, will very likely continue in West Germany. The threat to political stability in Western Europe will remain greatest in France and Italy. There is some possibility, especially in Italy, that the strength and effectiveness of the Communist parties will be reduced by government action. Even if such action should be taken, both France and Italy will continue to be hampered by Communist and extreme right opposition to the form of government itself, by their party systems, by fundamental divisions over such issues as economic reform and clericalism, and by deep-seated social cleavages. Therefore, France and probably Italy are likely to be ruled by weak or indecisive governments for at least the next several years. However, the inability or unwillingness of these governments to meet popular demands for economic and social reforms might produce explosive situations within the period of this estimate.

France

26. Basic constitutional, economic, and social reforms are essential to the revitalization of France. However, French society is essentially static, with its institutions deeply rooted and highly resistant to change. Conflicts of interest make it extremely difficult to obtain agreement on social reforms and programs for economic expansion. Anticlericalism persists as another divisive factor, and internal dissension will almost certainly be increased by the revival of West Germany.

27. Unless new leadership emerges, it is probable that government by weak coalition cabinets will continue. These governments will

be drawn for the most part from the right-center, but on occasion from the left-center. Such governments will probably be capable of averting political anarchy and economic collapse, but they are unlikely to achieve significant progress toward revitalizing France. Throughout the period of this estimate the possibility will persist of a swing to the extreme right. We believe that a rightist coup is possible but unlikely, especially in view of the weakness and division of the right.

28. The French Communist Party will remain a large and important vehicle of political protest, particularly for the working class, and its large representation in parliament will contribute to making the formation of stable governments difficult. Its strength would almost certainly be increased by a major depression, by the emergence of a nationalistic and militaristic West German state, and possibly by a prolonged relaxation of Communist-Free World tension. We do not believe its strength is likely to increase sufficiently to enable it to gain membership in the Cabinet or to take over the French Government during this period. On the other hand, developments such as an economic depression or increased fear of Germany might create a political situation which permitted the establishment of a leftist government with Communist support.

Italy

29. The outlook for Italy over the next decade is for political instability and weak governments, because of the continuing political power of the Communists, the deep division among the non-Communist forces, and the difficulty of satisfying popular demands for social and economic improvement. It is possible that a strong government might emerge willing and able to meet these demands. However, this development is unlikely, and extremist sentiment among the electorate therefore will probably increase. While the probable long-term trend will be toward right-center governments, on occasion efforts may be made to form moderate left governments. Mounting frustration and disillusionment may lead to an increasing trend toward authoritarian rule. However, we believe the emergence of another fascist regime unlikely.

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30. Despite a probable increase in their popular strength, the Communists and their left-wing Socialists allies are unlikely to attain power within this period, either by parliamentary means or by force. However, weakening of the center political parties might go so far as to endanger the existence of democratic institutions, especially if it were accompanied by deterioration of the Italian economic situation. The chances of such a development would be increased if a relaxation of international tension should remove an urgent sense of the Communist danger, or if center and right groups in Italy should fail to take positive measures to improve economic and social conditions. If Italy were imminently threatened by a Communist takeover, we believe that anti-Communist elements, supported and assisted by the public security and military forces and relying on outside assistance, would use force to prevent the Communists from coming to power.

West Germany

31. West Germany's remarkable recovery from Nazi rule and its progress toward democracy and cooperation with the West have been aided by conditions which probably will not persist throughout the period of this estimate. Authoritarian and extreme nationalist elements still exist in Germany. Nevertheless, German opinion will almost certainly remain moderate so long as West Germany remains prosperous and so long as the West German Government appears able to gain some satisfaction for German national aspirations. However, even under such circumstances, West Germany will become an increasingly restive and independent associate, and will seek great power status among the Western states. As its strength increases, West Germany will probably attempt to commit the Western alliance to bring heavier pressure to bear on the USSR to restore German unity.

32. If West Germany can maintain a depression-free economy, we estimate that constitutional and responsible government has an excellent chance of continuing. Should serious economic difficulties develop, there would almost certainly be a growing trend in West

Germany toward a more authoritarian and nationalist type of government. This trend would be intensified if a moderate democratic government appeared unable to pursue effectively German national aspirations. An extremist, nationalist movement is unlikely to achieve power without the help of a depression, but continued frustration of German national aspirations would almost certainly increase nationalist feeling at all levels of the population.

33. The foreign policy of the Federal Republic will continue to aim at removing the last vestiges of the occupation regime and at restoring full German independence and sovereignty. Assuming no decisive shifts in Western or Soviet policy, it seems almost certain that West Germany will preserve a pro-Western orientation during the next few years and will continue to seek equal association in the Western alliance. Should this association be denied, it might seek to play an independent role between the two great power blocs, but it will almost certainly not align itself closely or consistently with the USSR.

The United Kingdom

34. The two major British parties are in essential agreement on maintaining Britain's place as a ranking power, on the main lines of British foreign policy, and on the need to restore Britain's economic power. We believe, therefore, that British foreign, defense, and trade policies would not be significantly altered, even if Labor should form a government within this period.

35. The present Conservative government can almost certainly remain in power until 1956, the end of its five-year constitutional term, although for tactical reasons it may call an earlier election. If world conditions remain reasonably favorable, and if the Conservatives maintain their present standard of performance, they will probably win the next election.

36. Conservative prospects are enhanced by the protracted differences which have split the Labor Party and which diminish its effectiveness as the Opposition. Bevanism, the political faith of a vocal and energetic left-

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wing minority, is responsible for the split. Bevanism will remain an important factor in Labor's policies, but it almost certainly will not come to dominate the party in the foreseeable future. Attlee's successor will probably be a less controversial figure than Bevan and one who is better suited to attract the important floating vote in Britain.

Probable Military Developments

37. The armed forces of the states of Western Europe³ are impressive in size, taken all together. They include 3,250,000 men under arms (2,000,000 of these are in ground forces organized into 55 divisions and numerous separate brigades and regiments), 22,000 aircraft (of which about 6,500 are jets and 9,000 trainers), and strong naval forces. However, the size of these forces is not an adequate measure of their ability to defend Western Europe. There is no over-all unity of command, and there are great differences in quality of personnel. The ground forces are equipped with arms of many varieties, are deficient in antiaircraft weapons and in logistic support, and have only limited stockpiles of equipment for reserve units. The air forces are hampered by inadequate aircraft control and warning systems, the lack of replacement aircraft and reserve personnel, and an inadequate fuel distribution system.

38. The most effective defense force in Western Europe is supplied by the NATO states. These forces are relatively well-equipped and are fairly well integrated, although deficiencies still exist. Greece and Turkey, as members of NATO, and Yugoslavia, as an ally of Greece and Turkey, contribute important additional strength (nearly a million men organized into about 60 divisions) to the defenses of Western Europe. The capabilities of NATO forces stationed in Western Europe have so increased during the last four years

³For the purposes of this estimate, "Western Europe" includes the UK, France, West Germany, Italy, Belgium, the Netherlands, Luxembourg, Austria, Sweden, Denmark, Norway, Switzerland, Spain, Portugal, and Ireland.

that these forces could offer strong initial resistance against an attack by Soviet forces.

39. Western Europe's aggregate scientific and technical capability is great. Progress in weapons research and development is hampered by insufficient funds and by a shortage of specialized research equipment and laboratory facilities. We believe that some progress will be made toward overcoming these weaknesses, partially by increasing international cooperation, and that Western European science and technology will continue to make significant contributions in the development of new and improved weapons. When controls are released in West Germany, Western European research and development resources will be considerably increased.

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41. Unless a new series of Soviet actions stimulates increased efforts toward rearmament, the military forces of Western Europe at best will probably remain at approximately their present size, at least until the rearmament of West Germany has become effective. There

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will almost certainly be a significant increase in the quality of these forces, especially in terms of air power, as fighter units are converted to modern jets, as bomber forces increase in size and quality, and as air defense systems improve.

42. Under favorable economic conditions, the Western European NATO states, except perhaps Italy, will probably have the economic capacity to maintain their military forces at present levels without US aid. However, opposition to increased taxation, reluctance to incur budget deficits, and popular pressures for higher living standards and for increased social services make it unlikely that the governments will be willing to spend the necessary funds. Consequently, some countries, notably France and Italy, will continue to press for US aid.

43. The Western European states will remain convinced that the continued presence of US ground, naval, and air forces in Western Europe is vital to their security and to the prevention of war.

44. NATO will almost certainly remain the center of the Western security system. Its success in increasing confidence in Western Europe and in strengthening the ties among the Atlantic states makes it an important element in Western defense. While much remains to be done toward standardization of equipment and toward integration, NATO forces are now interdependent to an unprecedented degree. On the other hand, NATO has no integrated foreign policy and no apparatus for achieving one, and it has only the beginnings of a common economic defense policy. Efforts to overcome these deficiencies will be hampered and thwarted by conflicts of national interest.

Probable Developments Concerning the Western European Community

45. Western Europe has made progress during the last five years toward economic cooperation and the establishment of common institutions. Plans now being discussed by ministers and debated by parliaments (EDC, EPC)

call for an even higher degree of integration among the six nations of the Coal-Steel Community. Full and whole-hearted approval of these plans would contribute to the solution of some of the problems facing Western Europe. Steps toward a single European market would be facilitated. National rivalries might be dulled, especially the dangerous antagonism between France and Germany, and the possibility of a revival of German militarism would be reduced.

46. However, many forces are working against the development of Western European integration. The UK almost certainly will not become a member of a highly integrated Western European community, though it will probably continue and perhaps increase its present degree of collaboration with Western European political, economic, and military organizations. Without UK membership, an integrated Western European community almost certainly would be dominated by West Germany. France fears such an eventuality almost as much as it fears Soviet domination. Throughout the Continent there are many interests threatened by further steps toward integration.

47. For these reasons, we believe that Western Europe is unlikely to go much beyond the present degree of integration during the period of this estimate. Even if EDC and EPC are accepted in some form, open reservations and concealed opposition will almost certainly prevent full attainment of the EDC and EPC objectives. On the other hand, even failure to ratify EDC would not in itself destroy the military cooperation among Western European states now existing in NATO, nor exclude the possibility that NATO might be enlarged to include West Germany.

48. Nevertheless, the French will remain reluctant to accept any development involving even the possibility of German domination of Europe, and will attempt to delay every measure designed to secure West German cooperation in the Western defense effort. This conduct will tend to revive German militarism, extreme nationalism, and hostility to France. It will make the operation of NATO difficult.

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We believe, however, that the French will ultimately be forced to accept some arrangement for West German rearmament, but that they will do so reluctantly and hesitantly, and probably in such a manner as to detract from the effectiveness of the arrangement. Franco-German relations will, therefore, continue to be the central problem of any common Western European political or military effort.

Probable Effects of Growing Soviet Nuclear Capabilities

49. A great and recognized growth in nuclear capabilities may increase the difficulties presently felt in maintaining an effective Western coalition under US leadership.⁴

⁴For more detailed views, see NIE 100-54, "Probable Effects of Increasing Nuclear Capabilities upon the Policies of US Allies," (26 April 1954).

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