

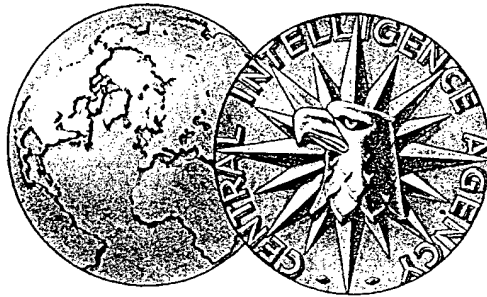
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CIA HISTORICAL REVIEW PROGRAM  
RELEASE IN FULL  
THE CURRENT SITUATION  
IN AUSTRIA

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## THE CURRENT SITUATION IN AUSTRIA

### SUMMARY

Austria's strategic importance to the US lies in its contiguity to the Soviet-satellite area, and its status as an occupied country where US and Soviet forces are in direct contact. It is a natural center of east-west and north-south trade. Under present conditions the USSR controls the Danube Valley and uses Austria as a door to trade with the west and as a source of economic gain.

The power of the Austrian Federal Republic is limited by the four-power Allied Commission. The present government, elected in 1945, is a coalition of the People's Party (Catholic and conservative) which has a majority and holds the chancellorship; and the moderate Socialist Party. National elections, scheduled for October, are expected to result in a continuation of the coalition, which is stable and pro-Western. The Communist Party, the only other group to have parliamentary representation, is a negligible influence with virtually no chance of gaining legal power.

The USSR has not seized complete control of the eastern zone, and the general mildness of the occupation has encouraged the Austrians to be outspoken and self-reliant. While a desire for a treaty is paramount, Austrians are concerned over the economic burden they must bear by terms of the treaty, which they are not yet fully convinced will actually be signed.

That Austrian economic recovery since 1945 has been considerable, despite many adverse factors, is a consequence in the first instance, of foreign financial assistance, chiefly from the US. Soviet economic policy still exerts a

drag on Austrian recovery. Despite Soviet removal of output from Soviet-seized firms and of two-thirds of oil production, the index of over-all industrial production, was 113 in June 1949 (1937=100). Agricultural recovery has been slow, with Austria supplying only about half its rationed food needs. Austria's dependence on foreign assistance is indicated by its 1948-49 dollar area deficits of \$229 million, and deficits with other areas totaling \$49 million.

Austria's foreign policy revolves around the attempt to obtain a treaty which will assure the country economic independence and restoration of sovereignty. The government must balance its pro-Western leanings against fears of the USSR, and its hope of convincing the USSR of the advantage of an independent Austria. Consequently, although the US exerts the most important influence on governmental policies, Austria, with calculated self-interest, "cooperates" with the Soviet element in the country.

Internal security rests with the police and gendarmerie (about 26,000 men) in addition to the occupation forces. Under present conditions, internal security appears contingent upon the occupation policies of the USSR. The agreed portion of the treaty provides for an Austrian army of 53,000 and an air force of 5,000. Austria plans to seek authority to begin organization of the army as soon as the treaty is signed. Western authorities are currently developing a gendarmerie regiment as a nucleus for an army, capable of maintaining internal security and safeguarding Austria against all but major encroachments.

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Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. It is based on information available to CIA as of 1 August 1949.

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## THE CURRENT SITUATION IN AUSTRIA

### 1. Strategic Importance of Austria.

Austria is important to US security because of its geographic location and its present occupied status wherein US and Soviet forces are in immediate contact. As the easternmost area of Western influence and the westernmost area of Soviet influence in Europe, Austria is a pivotal point in the East-West struggle. Supported and protected by the Western occupation forces, the pro-Western Austrian Government has cooperated with the United States in the face of Soviet occupation of eastern Austria and Soviet influence in adjacent areas. The fate of Austria, and US policies in regard to it, assume special importance to US security in connection with Western Europe consolidation, both political and economic, and with strengthening the determination of Western European people to resist Soviet aggression.

#### *a. Military Aspects.*

From a military point of view, the strategic importance of Austria lies in its central geographic location, and in its present relationship with the Soviet-satellite area. Austria's own military role, negligible at present, must be limited to that of a defensive force or a component of allied armies. Despite natural barriers to the south and the defensive topography of the western part of the country, Austria's vulnerability to attack over the Hungarian plain in the east and the Bavarian plain in the north makes impracticable any defense against strong invasions from those directions. At the same time, the Danubian valley represents the natural gateway to south-central Europe as well as the natural entrance to the Balkan peninsula. The current predominance of Soviet occupation forces in Austria, and the Soviet position in the Danubian valley, results in effective Soviet control of Austria's natural gateway at the present time.

#### *b. Economic Aspects.*

From an economic point of view, Austria's strategic importance to the US lies largely in

its position as a transit center for east-west as well as north-south traffic. Despite present limitations on over-all international trade, and the prohibitions on east-west Danube shipping in Austria, Austria's position as an important transportation artery is revealed by the extent of shipments—particularly east-west shipments—presently crossing the country. In addition, Austria is not only an important producer of hydroelectric power but also one of the most important potential sources of such power in Western Europe. Existing power facilities make it impossible for Austria to produce more than 20 percent of its potential annual output of 25 billion kwh; further development of this resource will enable Austria to increase greatly its power exports. Of other natural resources, magnesite and timber furnish considerable exportable surpluses. Austrian oil production, now under complete Soviet control, must be supplemented by imports because Soviet allocations have fallen far short of Austrian needs. Even under optimum conditions, however, Austrian oil resources, although substantial, are of limited strategic value. Other natural resources, the most important of which is high quality iron ore, are largely consumed by domestic industries.

#### *c. Importance to USSR.*

The importance of Austria to the USSR is primarily a matter of geographic location. In extending its influence beyond the present satellite perimeter, the Soviet Union can exert considerable influence within Austria through the Soviet occupation forces. Either by continuing the occupation, or by specific treaty terms, the USSR can maintain that influence or, at least, neutralize Austria as a potentially active and integral part of Western European economic, political, and defensive planning. Currently, Austria has an additional importance to the USSR as a source of economic gain and as a door to east-west trade which is denied the Soviet areas from other sources. While the course of action which the USSR

will follow toward Austria is still uncertain, at present it is unlikely that the Soviet Union intends to partition the country. Soviet decision in this respect would presumably be determined largely by its over-all European strategy which is presently directed toward avoiding a risk of war and increasing east-west trade rather than by the negligible factors involved in the local Austrian situation.

## 2. Political Situation.

The power of the Austrian Government is subject to the limitations imposed by the Allied Commission (AC) composed of the four occupying powers. A Control Agreement in 1946 defined the position of the government and permitted its authority to extend throughout the country, subject to certain reservations. The most important provision of the Agreement stipulates that only constitutional laws require unanimous AC approval and that other legislation may go into effect automatically if the AC fails to act upon it unani- mously within 31 days. Other provisions leave certain important matters subject to the jurisdiction of each zonal commander. Despite several noteworthy exceptions, the USSR has, in general, lived up to the specific stipulations of the Agreement. Soviet officials have, however, interpreted some clauses to authorize the Soviet zone commander to extend his control to cover phases of the Austrian economy not contemplated by other parties to the Agreement.

### a. The Constitution.

The validity of the Austrian Constitution, essentially that of 1929, rests solely on the authority of a law passed by the Provisional Government in 1945 and later approved by the AC. No permanent legislation enacted by the elected parliament exists. Despite an AC request (pushed through by the Soviet element) that the parliament submit a new permanent Constitution, the government, instead, announced its adherence to the 1929 Constitution. Sporadic Soviet reminders that the AC directive has not been complied with have so far failed to influence the Austrian Government. While the USSR could challenge the constitutional validity of the government, the Soviet legal position would be

weak. Such a challenge is likely only should the USSR decide to take unilateral action outside the AC. Such action would extend far beyond constitutional considerations.

### b. The Government.

Within the framework of the Control Agreement and its Constitution, Austria functions as a federal republic of nine provinces. Provision is made for a federal president, a national government headed by a federal chancellor, a national parliament consisting of two houses, and provincial governors and governments. The provinces reserve far-reaching prerogatives and members of the Upper House (largely a rubber-stamp body) of the national parliament are elected by the provincial assemblies. The 165 members of the Lower House are elected by popular vote for four-year terms. Candidates, however, are elected only as names on lists drawn up by political parties, thus the voters choose a party, not an individual, and the primacy of political parties leads to voting on strict party lines, in both national elections and parliamentary debate. Indeed, before taking their seats in parliament, elected representatives submit undated letters of resignation to their party secretariat.

The present government, elected in 1945, is in the hands of the two large parties working as a coalition. The conservative People's Party, which is under the influence of the Catholic Church, has 85 deputies in the Lower House and 7 cabinet ministries; the moderate Socialist Party controls 76 deputies and 6 cabinet posts. (As the majority party, the People's Party fills the position of Chancellor.) Because almost all issues are decided between these parties before any measure is presented to parliament, parliamentary debate and criticism are rare and the voting is easily predicted. The far-reaching polarization of political life in Austria results in a virtual absence of independent pressure groups; these are represented within the parties and such interests rarely cross party lines. For example, the People's Party represents primarily the interests of the Chambers of Commerce and Agriculture, while the Socialists represent chiefly the Chamber of Labor and the Trade Union Federation (about 69 percent of all

wage and salary earners). The Communist Party, the only other party able to gain parliamentary seats in 1945, received 5.4 percent of the vote and 4 seats in parliament.

*c. Austrian Communists.*

The Austrian Communist Party is a negligible influence in the government, has virtually no chance of assuming legal control, and functions solely as a tool of Soviet policy. Popular recognition of the Communists' subservience to Moscow has contributed greatly to the continuing strong control of labor by the Socialists. On the other hand, the Communist Party has an importance out of proportion to its actual strength because Soviet backing gives it an influence in business and labor, and to some extent in lesser political positions, which would not otherwise exist. While there is scant possibility that the Communists, without Soviet assistance, could execute a successful *putsch* in eastern Austria and in Vienna situated within the Soviet Zone the chances of sustaining a coup in the Soviet Zone are considerably better than in Vienna. In Vienna, which is subject to quadripartite occupation, intervention by the Western Powers could probably negate such an attempt unless the USSR determined upon active assistance in attempt to overthrow the government. At present, as in the past four years, the USSR has the capability to seize complete control of the eastern zone and partition the country.

*d. Political Aspects of Occupation.*

Quadripartite occupation, which is entering its fifth year, remains the most important consideration of the Austrian political scene. Stemming from this factor are the present stability of the federal government, the pro-Western attitude of the government and the people, the general distrust of the Communist Party, and the limitations on economic recovery. Some 90 percent of the population support the policies of the coalition government in its limited cooperation with the Soviet element within the country, in its considerable cooperation with, and reliance on, the US, and in its efforts to obtain a reasonable treaty. At the same time, the relative mildness of the occupation has encouraged outspokenness by the Austrians and has engendered a feeling of

self-reliance which otherwise might not be so pronounced. In addition, the difficulties resulting from the occupation and from Austria's struggle to recover from *Anschluss* with Germany and the economic set-backs suffered during the war have created a spirit of nationalism which had been missing from the Austrian Republic from its inception in 1919. Both the unpopular policies of the Soviet Union and Austria's own economic ills serve to weld the coalition parties and the population into a stable front.

*e. Coming Elections.*

The same coalition is expected to continue governing Austria after the national elections, scheduled for October. Although the addition of over 800,000 new voters, largely ex-Nazis who have received amnesty, will undoubtedly strengthen the Right, participation of new political parties (an issue on which legal confusion exists) would tend to splinter Rightist strength. The conservative People's Party is a heterogeneous organization, and the Socialists, more tightly organized, would, therefore, gain in over-all political power by a splintering of Rightist strength. Should no new parties participate, the People's Party appears likely to retain its lead. Even with new parties it might hold a slim majority, because only one new group appears to be of any importance and it is still an uncertain organization which may yet be effectively countered by the People's Party. The Communist Party, even joined by a small group of left-wing Socialists, appears unlikely to develop new strength proportionate to the increased electorate, and its present representation in parliament may prove difficult to maintain. The present lack of official and definitive clarification regarding the participation of new parties (the confusion stems from a 1945 AC decision which reserved to the AC the right to recognize new parties) may present the Soviet element with an opportunity to challenge the elections or the legitimacy of the next government. Despite a Soviet desire to disrupt present coalition cooperation and strength, however, there are no present indications that the Soviet element will attempt to prevent the elections or intends to challenge their legality.

*f. Treaty Considerations.*

Austrian reaction to the recent CFM agreements has been one of cautious optimism. Initial enthusiasm over the definitive separation of the Austrian from the German problem, and over the instructions to the deputies writing the treaty, has diminished somewhat with the realization of the economic burden which Austria must assume and the prolonged technical discussions which must precede treaty agreement. Previous disappointments over failure to write a pact, moreover, discourage complete belief that a treaty will actually be signed. Austrians are agreed, nevertheless, that the present efforts to effect a treaty give greater promise of success than any previous attempts.

3. Economic Situation.

The Austrian economy is based equally on industry and agriculture and is greatly dependent upon foreign trade because, for example, about one-half of the food and most of the industrial coal must be imported. While the country's prewar economic characteristics were altered by developments during the *Anschluss* with Nazi Germany, these changes have not been entirely disadvantageous. Agricultural production suffered heavily during German domination, but it can be returned to previous levels of output; and German-built industrial and power installations are already contributing to the economy. On balance the country appears to have no less capability of becoming self-sustaining now than before the war.

*a. Economic Recovery.*

Economic recovery since 1945 in the fields of both production and consumption has been considerable despite such adverse factors as over-exploitation of resources, war-damage, and dislocations resulting from war; unusual foreign and domestic marketing problems; the loss of foreign credits formerly derived from shipping, tourism, and foreign investments; and Soviet removals of equipment and current output. The primary positive factors in this recovery have been (in order of importance): the financial assistance extended to the country (through UNRRA and the ECA) chiefly

by the US; the four powers' agreement to restore Austria as an independent state; and the flexibility and determination evidenced in Austrian recovery efforts.

The danger existed in the early days of the occupation that the Soviet authorities, through control of important industries and certain agricultural areas in the Soviet Zone, would be able to manipulate the production facilities of the entire economy for their own purposes. Although this threat has greatly diminished, Soviet economic policy continues to exert a drag on the Austrian economy and delays economic recovery.

*b. Industrial Production.*

The index of industrial production rose from 44 in March 1947 (1937=100) to about 113 in June 1949. Electric power output reached 4.2 billion kilowatt-hours in 1948, as compared with 3.2 billion kilowatt-hours in 1947. Four main branches of industry—mining, metallurgy, machinery and equipment, and chemicals—have recently been producing well above 1937 levels. Consumer goods industries, on the other hand, are operating at much lower rates.

A large amount of the production of about 300 firms seized by the Soviet authorities in the spring of 1946 as German external assets is taken out of Austria without compensation. These firms are producers primarily of electrical and mechanical goods and generally operate independently of Austrian laws on prices, wages, foreign trade and other economic matters. The government has obtained, however, a portion of the output of the seized plants for distribution throughout Austria in return for allocations of government-controlled raw and semi-finished materials. About two-thirds of the oil produced (total production in 1948 was estimated at around 900,000 MT) is removed from the Austrian economy by Soviet authorities.

The ECA program for 1949-50, calling for US assistance totaling \$197 million (plus the equivalent of approximately \$41 million from other countries), should make possible further increases, though modest, in industrial production. ECA-financed capital goods, scheduled for import during the next twelve

months, will make it physically possible eventually to increase the emphasis on the processing of indigenous resources and imported semi-finished materials, and thus permit a reduction in expenditures for imported finished goods without impairing the Austrian economy.

*c. Agricultural Production.*

Agricultural recovery has been retarded by lack of seeds, fertilizers, fodder, and equipment as well as by the necessity to return to cultivation land which was allowed to remain unproductive during the war. Only about 50 percent of the present daily ration of 2,100 calories is being met from indigenous production; prewar Austrian production supplied 75 percent of a much higher caloric intake, but for a somewhat smaller population. As a result of this slow agricultural recovery, a disproportionate amount of ECA assistance has been spent for foodstuffs. (Food imports in 1948-49 are estimated at \$149 million; ECA assistance at \$215 million.) Because the Soviet Zone is the "breadbasket" of Austria, the question of equitable distribution of food throughout Austria arose early in the occupation period. It was solved by four-power agreement requiring all food, both domestic and imported, to be pooled for distribution by the Austrian Government. While the people are better fed now than at any other time since the war, governmental reliance on relief imports has tended to retard vigorous prosecution of agricultural development programs and collection of food quotas from the farmers since the majority People's Party, relying on rural support, has been careful to avoid antagonizing these voters. Increasing faith in the schilling has helped improve deliveries of farm products in recent months, and with the best crop since the end of the war in prospect, the ECA has scaled down the government's estimate of required food imports for 1949-50.

*d. Transportation.*

The railroads are the primary facility in Austria's transportation system; road and water transport are currently unimportant. For Austrian purposes, Danube shipping is at a standstill since no craft—Austrian or otherwise—moves east or west beyond the Soviet

zonal demarcation line below Linz. With this exception, zonal restrictions do not seriously curtail inland transportation. Soviet authorities have imposed some restrictions on inter-zonal trade. For the most part these restrictions have served only to delay shipments. The Austrian railroads have greatly improved their operating efficiency since 1937, as indicated by about a 40 percent increase in ton-kilometers of freight in 1948 compared to the earlier period. Nevertheless rail facilities include some obsolete and wornout equipment and makeshift structures. Recent increases in rail rates and in tons carried will about cover operating deficits, but most capital replacements and improvements can only be effected through ECA funds. Soviet removals of rolling stock have not seriously affected operations to date, but further removals of Soviet-marked equipment would reduce Austrian traffic capacity.

*e. Unemployment.*

Unemployment in Austria today is a relatively unimportant problem and the largest laboring force since 1919 is at work. Unemployment over the past year, however, rose from about 51,000 persons in June 1948 to around 100,000 persons in April 1949 or to about 4 percent of the total working population. There is, nevertheless, still a shortage of skilled workmen as well as a need for approximately 35,000 workers in agriculture. As a result of the increased unemployment, Austrian labor unions have recently sought to tighten labor laws in order to protect themselves from the 231,000 aliens in the Austrian labor force. These alien workers in Austria, however, are contributing greatly to Austrian reconstruction in every field, particularly agriculture. Unemployment can be expected to remain at about 4 percent of the total working population during the next twelve months.

*f. Foreign Exchange.*

Austria's foreign balance of payments shows clearly the country's dependence on foreign assistance. The total foreign deficit on current account is estimated at the equivalent of \$278 million for 1948-49 and at \$230 million in 1949-50 (ECA estimates). The largest part of these deficits is with the dollar area: in 1948-49 the dollar area deficit was about \$229



million, as against \$49 million deficit with all other areas; estimated deficit for 1949-50 is \$197 million, as against \$41 million. Before the *Anschluss* invisibles netted considerable foreign credits (in 1937 about 15 percent of total credits on current account); now there is a small invisibles deficit. Merchandise trade, however, shows a heavy deficit estimated at \$267 million in 1948-49, imports totaling \$466 million and exports \$199 million. The merchandise trade deficit for 1949-50 is expected to decline to \$220 million. Although there has been some growth in volume of commercial trade (which excludes imports financed by foreign assistance), commercial imports are not yet covered by commercial exports. Consequently it seems clear that even if the government's planned rate of economic improvement is attained, substantial foreign assistance will continue to be necessary for some time unless current standards of living are reduced.

*g. Foreign Trade.*

The revival of foreign trade has been retarded by: the demands of the reconstruction program, the loss of German markets, political conditions in the satellite area, and changes in Austria's industrial structure and capacity. These factors have forced Austria to seek a different and more diversified trade pattern than that which prevailed before the war. About 70 percent of the currently expanding trade is with Western Europe and overseas countries; official trade with Eastern Europe has not attained its prewar relative importance and appears unlikely to do so in the near future. (The Soviet element, however, through its industrial properties seized in Austria, directs a flow of extralegal trade to the satellite areas and, in return, receives products which are frequently placed on the Austrian black market.) Compensation or barter transactions resulting from the acute postwar shortage of foreign exchange, are only slowly giving way to more flexible bilateral trade treaties and clearing arrangements.

*h. The Fiscal Situation.*

Inflationary pressure has continued to be an important problem in spite of the two currency reforms since the liberation of the country. Budgetary deficits (amounting to 1,300

million schillings in 1948) caused mainly by payments to defray the costs of occupation and other extra-budgetary expenditures, and the release of blocked bank accounts, counteracted the reduction in the money supply resulting from the currency reforms. On the other hand, ECA counterpart funds in the amount of 1,450 million schillings were used in 1948 to cancel an equal amount of government debt held by the Austrian National Bank, thus contributing to a further stability of the currency.

A deficit of approximately two billion schillings was originally budgeted for 1949 as a result of: shrinking of revenues from the state tobacco monopoly (about S450 million) and additional expenditures such as a thirteenth month's payment to all federal employees, totaling about S300 million; increased social insurance payments, estimated at S300 million; and the need to finance extraordinary expenditures amounting to about S400 million owing to the smaller amounts available from ECA counterpart funds than originally expected. Furthermore, a payment of about S600 million occupation cost will be required in 1949 which the Austrian Government expected would be eliminated. Partly in an effort to bring the budget into balance, a far-reaching wage-price fiscal agreement was enacted into law in June 1949 and is now being implemented.

The new measures provide for a stoppage of all Federal government subsidies on such items as coal, public utilities, transportation, and food as well as an increase in taxation, customs duties, and public utilities and transportation tariffs. A 5 percent internal loan was authorized to cover the remaining deficit estimated at 400 to 700 million schillings. In partial compensation for the expected increase in the cost of living (official index) a general wage and salary increase was ordered, amounting to about 8.5 percent. Despite this increase, real wages have declined, although the set-back has been mitigated by increased variety of consumer goods.

It is hoped that a sound fiscal policy and the general tendency of world prices to decline will put a brake on further price rises. In this connection it is to be noted that the black

market exchange rate of the schilling continues to show strength. As a result of these measures a considerable improvement in the over-all budgetary situation is now in prospect, although a deficit still seems probable.

The cost-of-living index rose about 20 percent between July 1948 and June 1949. Deterioration of many items, a sharp drop in black market prices, and increased supplies of consumer goods, however, tended to cushion the effects of the cost rise. These factors are not reflected in the cost-of-living index. The standard of living, nevertheless, is still low. The new wage-price-tax program, as suggested above, will tend to raise the cost-of-living index from present levels, by an estimated 7 percent. On balance, however, it does not appear that this will put workers in a worse position than last fall.

#### 4. Foreign Policy.

Austria's foreign policy is irrevocably bound up with its efforts to obtain a treaty which will assure its economic independence and restore its sovereignty. In these efforts, the government must balance its pro-Western leanings and reliance on US economic aid and political support against fears of Soviet intentions and the necessity of convincing the USSR that a neutral and independent Austria can be a beneficial factor in the East-West struggle. Within the confines of this policy, Austria remains largely concerned with its own problems and the prevention of any deterioration in the present *status quo* within the country. To this end, it subjugates both its desire for closer economic and political integration with Western Europe and its antipathy to the USSR; Austria will continue to pursue this policy as long as any hope remains for obtaining a treaty or as long as such a policy promises to prevent the Iron Curtain from coming down on the eastern zone of the country.

##### *a. Relations with US and USSR.*

Because of the limitations, both self-imposed and created by the Control Agreement, Austrian relations with the US and the USSR constitute the most important aspects of Austrian foreign policy. Whereas the US has endeavored to strengthen the position of the government and has contributed greatly to

Austria's economic recovery, the USSR has sought to curtail the authority of the government and deprive Austria of economic resources. Austrians sometimes take US aid for granted and are not above playing one group against the other for some immediate benefit; nevertheless, the US continues to be the most important influence in government policies. With the USSR, Austria follows a careful, calculated policy of self-interest in "cooperating" with the Soviet element within the country, and attempts on the international scene to maintain a neutral position. Above all, Austrians are displaying an increasing impatience with the occupation, with "liberation," and with their own inability to improve their position.

##### *b. Relations with UK and France.*

Because the British and French have been unable to make the financial contributions that the US has made, and do not represent the military threat that the USSR presents, their present influence is small. Austrian relations with both countries and with their occupation forces are satisfactory, however. Relations between the British Labor Party and the Austrian Socialist Party, in particular, are fairly close. Sensitive over their country's position as a pawn in the East-West conflict, Austrians are envious of Italy's status and the improving status of Western Germany but are eager to achieve even limited security in cooperation with the Western European nations. Any appreciable shift in Austria's foreign policy and in its relations with other nations is dependent upon changes in its occupied status and in definitive changes in the East-West struggle.

#### 5. Internal Security.

Internal security within Austria rests not only upon the police and gendarmerie (some 26,000 men) but also upon the presence of the occupation forces who have, to date, exerted a restraining influence upon any disturbing elements. The Communists enjoy an artificial importance by virtue of the Soviet occupation forces but the USSR has given no evidence of desiring an overt attempt to disrupt internal security—possibly because active Soviet support of the Communists would threaten par-

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tion of the country and because the Western Powers could effectively control any such attempt in the Western zones. On the other hand, the coalition parties, united in opposition to the Communist-Soviet threat, have submerged the old enmities which caused the democratic regime to collapse and are working together. Should the occupation end and the present importance of the Communists dwindle, the possibility of strife between the People's Party and the Socialists might well represent the greatest danger to internal security. Under present conditions, however, the continuation of the stable internal situation appears contingent upon the occupation policies of the USSR. Communist paramilitary organizations and Soviet-controlled *Werk-schutz* (factory guards) do not constitute a serious threat to internal security, either now or following quadripartite troop withdrawal, provided that no large-scale aggression is launched from Soviet-controlled areas.

*a. The Armed Forces.*

Austria has been demilitarized and demobilized by quadripartite action. At present, it has no armed forces.

The agreed terms of the draft treaty provide for an army of 53,000, including gendarmerie, and an air force of 5,000. Although the government is officially prohibited from planning for this future army, the two major political

parties have recently reached agreement on its essential features and the government plans to seek Allied permission to begin organization of the army on the date the treaty is signed. Should this be agreed, Austria would have more than the 90 days, the period between ratification of the treaty and the withdrawal of occupation forces, to get at least an army of 20 to 30,000 into being. In order to facilitate a more rapid army organization, and mitigate any possibility that an Austrian force capable of maintaining internal security would not be immediately available following quadripartite troop withdrawal, western occupation authorities are currently engaged in training and equipping a gendarmerie regiment in the Western zones. This force could form the nucleus for the future army.

Despite the possibility of some political differences over the composition and organization of the future army, it will be capable of maintaining internal security and of safeguarding Austria's frontier against all but major encroachments. Because Austria would be incapable of resisting major aggression, long-term national security can be found only in collective arrangements or guarantees by the great powers. Such guarantees will probably be sought from the Western Powers; Austrian participation in collective arrangements is unlikely so long as the country is immediately exposed to retaliation by the USSR.

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