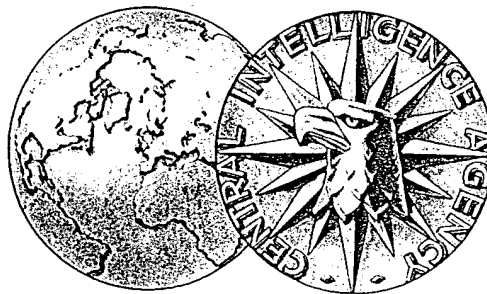


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POLITICAL AND ECONOMIC CHANGES IN WESTERN EUROPE SINCE THE LAST CONFERENCE OF FOREIGN MINISTERS

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POLITICAL AND ECONOMIC CHANGES IN WESTERN EUROPE SINCE THE LAST
CONFERENCE OF FOREIGN MINISTERS

SUMMARY

At the breakdown of the last Conference of Foreign Ministers (CFM) in London in December 1947, the general situation among the continental nations of Western Europe, except for the Scandinavian bloc, was favorable for Communist exploitation. Although there was little danger from Communism in the UK, the country had just passed through the worst of its postwar economic crisis, and economically the future was extremely uncertain. France and Italy were politically and economically unstable, and Italy's allegiance in the cold war was doubtful. The over-all situation in Germany was extremely grave as a result of industrial stagnation and near starvation.

In the sixteen months which have elapsed since the conclusion of the last CFM, the strategic position in Europe of the Western Powers has materially improved. France, Italy, Norway, and Denmark are now firmly in the western camp. France and Italy possess moderate and relatively stable governments; both nations are making rapid strides toward economic rehabilitation. The UK, Benelux, and the Scandinavian states, through their own economic improvement and cooperative efforts, are contributing to the economic recovery of the entire region. Although in Western Germany the political and economic situations have shown marked improvement, the area remains of immediate concern to US security. In Austria, the Western Powers have more than held their own in the East-West struggle. In general all the states of Western Europe have come, since December 1947, to view the problems in Germany in much the same light as they are viewed by the US and the UK. In general, too, the governments and peoples of Western Europe have come to a much clearer realization of the menace to themselves of international Communism and have evinced a hardier determination to combat it, and to combat the activities of national Communist Parties as well.

Only in the Iberian Peninsula has the situation deteriorated. Deterioration in that area, while posing long-range problems, some of which the US may be called upon to solve, is not of serious immediate importance in the present phase of the East-West conflict.

Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. The information contained herein is as of 18 May 1949.

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POLITICAL AND ECONOMIC CHANGES IN WESTERN EUROPE SINCE THE LAST CONFERENCE OF FOREIGN MINISTERS

THE GENERAL SITUATION IN DECEMBER 1947

At the breakdown of the last Conference of Foreign Ministers (CFM) in London in December 1947, the general situation among the continental nations of Western Europe, except for the Scandinavian bloc, was favorable to a Communist advance. The government of the UK was stable; the population in general was definitely pro-Western, and there was little likelihood of Communist gains through political or any other type of activity. The country had just passed through the worst of its postwar economic crisis, but the future was extremely uncertain, with lack of dollars causing grave apprehension. France and Italy, the two major sovereign continental states, were still suffering from the political and economic instability resulting from World War II, and still appeared in danger from strong Communist minorities, although in France, Communist influence had begun to decline. Many of the smaller powers such as Switzerland, the Benelux countries, and Scandinavia, were politically and economically stable or were showing signs of becoming so. Communist political domination of the UK was a virtual impossibility. In Germany, the internal political situation was dominated by apathy and inertia; economically, conditions were extremely grave with industrial stagnation and near starvation. The four occupying powers were deadlocked in the Allied Control Council. By default, therefore, a revolutionary situation was developing which, if unchecked, could have presented the numerically weak Communists with a field for exploitation. In Austria the anti-Communist government, although stable, was subject to the severe pressures of four-power occupation and economic hardship.

The Third Force coalition which governed France gave little assurance of stability; it was threatened on the one hand by a powerful Communist Party which controlled the principal labor union, and on the other by the political party led by the aspiring Charles de Gaulle. The economy of the country, gravely damaged by the war and the German occupation and suffering from inflation, had just been severely shaken by a nation-wide series of Communist-led strikes accompanied by sabotage. Although Premier Schuman's firm handling of the strikes had raised the prestige of his government, the specter of civil war between Communists and Gaullists remained in the background.

Italy, whose economy was in many respects in worse condition than that of France, was ruled by a provisional government with a slim parliamentary majority composed of Christian Democrats and several moderate parties. Its stability depended mainly on continuation of US aid. The Italian Communist Party which was threatening the government with an intensified campaign of strikes and violence, and possibly with revolution, was the largest and best organized in Europe outside the USSR. To combat these physical threats, which would have ruined the country economically, if carried out

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successfully, the provisional government possessed a police force and an army, both suffering from poor leadership, few arms, and little mobility. In addition, Italy had no dollar credits for the purchase of essential food and raw materials.

The governments of France and Italy were both moderate and were, along with the majority of the people, desirous of remaining in the Western bloc. In view of their many problems, their paucity of resources, and the strength and militancy of their Communist minorities, they appeared to have little more than an even chance of remaining in power. Had they fallen, France would probably have been ruled by a rightist government under De Gaulle, and Italy by the Communists. In either case, civil war might well have followed to the probable advantage of the USSR.

With the near approach of another CFM, it is pertinent to review the changes affecting US security which have occurred in Western Europe during the sixteen months that have elapsed since the last meeting in London.

THE UNITED KINGDOM

The UK's chief weakness in December 1947 was its economic situation, which had but just begun to turn upwards from its postwar depths. Today, the whole fiscal and financial outlook is greatly improved. Inflation has been checked. Rationing and other restrictions have been eased. The economy is, however, and must for some time be, strictly controlled. Britain's external payments on current account are in over-all balance, but a large deficit in dollars (now met by ECA funds), remains the greatest problem. The pound is gaining strength and is even becoming scarce. The general economic and financial prestige of the UK has greatly increased since the end of 1947.

While there has been no question of morale in the British armed services in the event of war, and although their organization has improved over the past sixteen months, the UK's over-all military capabilities are low in relation to extensive defense commitments. Scientific research and staff work in the higher levels were and are excellent, and the reserve position of the services, with several million combat veterans, is good. Despite the relative weakness of the military potential, capabilities for the defense of the UK have improved since December 1947.

While the UK has differed occasionally with the US in the emphases on and approach to the German problem, the UK Government was and is in fundamental agreement with that of the US. The population is kindly disposed toward German recovery provided security safeguards are enforced and reasonable French fears are placated. The UK Government in general favors the German Socialist Party and socialization, both on principle and as a deterrent to either a Communist or a rightist dictatorship. It is less sanguine than the US on the chances of inculcating a genuine democratic spirit among the Germans. Concern is beginning to be felt over rising German industrial competition.

While there has never been any doubt about British disposition to resist Communist expansion, Britain's capabilities to this end have been increased as a result of progress toward economic recovery which has enhanced the UK's prestige and influence in

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international relations; strengthened its willingness to maintain, and even to expand overseas undertakings related to strategic objectives; and confirmed its readiness to support its present military budget.

FRANCE

France has made marked progress toward political and economic stability since December 1947. Industrial production is at a level 25 percent above prewar; foreign trade is improving and greater confidence in the franc is manifest. The Communists have lost support throughout the country, and no longer pose an immediate serious threat to the government. Although the Gaullist movement remains an important political factor, the likelihood of De Gaulle's coming to power is greatly diminished, while the specter of civil war has been exorcised. French military capabilities in terms of trained manpower and available equipment are generally the same as they were a year and a half ago, but reliance on collective security pacts and the hope for US military aid promise improvement in French military capabilities. The French armed forces are capable of suppressing any uprising or threat to security arising inside the country.

In December 1947 French policy was not far removed from De Gaulle's original concept of a weak Germany, which involved separation of the Rhineland, internationalization of the Ruhr, and economic union of the Saar with France. Since that date, France has made concessions regarding trizonal fusion, the occupation statute, dismantling, and the establishment of a west German state. At the CFM, the French will probably continue their present close cooperation with the US-UK position on Germany and will probably oppose any USSR effort to establish a centralized Germany.

In French North and West Africa, however, the situation has deteriorated slightly since December 1947. Reduction of French armed forces in the area, necessitated by military operations in Indochina, has increased the possibility of difficulty in controlling disorders among the natives. Moreover, the discouragement of nationalist leaders, caused by French policy and by their failure to achieve moral support from the US or material assistance from the Arab League for their aspirations, enhances the possibility that they may come to a working arrangement with the Communist Party.

ITALY

Italy, which in December 1947 was in serious danger of becoming a Communist state, is now possessed of a stable moderate government, and a rapidly improving economy. By signing the Atlantic Pact, Italy has aligned itself with the West. Although its armed forces are incapable of preventing an invasion, they are strong enough to suppress any revolutionary uprising. The economic rehabilitation of the country under ERP has successfully passed the opening phases, and the government is finally taking steps to provide a land reform program. While Communist Party membership and influence over labor have declined, a large Communist opposition still remains ready to exploit any failure of the government to effect adequate reforms. Such a

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failure could swing a decisive sector of the electorate over to the Communists in the national elections of 1953.

In December 1947 the Italians were bitter against Hitler and the Nazi leaders who had led Italy into a disastrous military venture, but as a whole they held no violent animosity toward the German people. At present, many members of the Italian Government, aware of Germany's former importance to Italian markets, desire the inclusion of Germany in any Western European economic union and believe that the reconstruction of Germany is essential to European recovery. Some conservative Italian elements would welcome the military revival of Germany as a powerful bar to further Soviet aggression.

SCANDINAVIA

The situation with respect to Sweden is little changed from what it was in December 1947. The government, although it has lost its absolute majority in the lower house, remains stable. Any conceivable change would not preclude the continuance of a stable democratic regime. The economic position was good and is slightly improved with respect to the contribution Sweden can make to general European recovery. The government and the people were and are basically friendly to the US and fear Soviet expansion. In the past sixteen months there has been an increase in the government's willingness to support the US position in the East-West struggle and to accept the US as the leader in opposing aggressive Soviet moves; however, Sweden prefers to continue her traditional neutrality rather than participate in the North Atlantic Pact. During the same period, the population has come to a greater realization that Swedish Communists are agents of the USSR and has more actively resisted Communist infiltration.

While opposed to a revival of German nationalism and militarism, the Swedes wish to see Germany economically restored so that the profitable prewar trade may be resumed.

The Swedish armed forces are relatively strong for a small power and would resist aggression with great determination. Without foreign assistance, however, they could not hold off Soviet attack for more than a few weeks.

The government of Norway was and is stable. The country's economy is steadily improving. In December 1947, the nation was reluctant to commit itself definitely to the West lest it offend the USSR, but it has now joined the Atlantic Pact. Norway opposes the re-establishment of German military power, but, like most other European nations, desires the revival of German economy in the interest of trade. Norway was and is chiefly important to the US in that it might become a base of operations in an East-West war, and by reason of its possession of the world's third largest merchant fleet.

Following the lead of Norway, Denmark has overcome its disinclination to pursue a vigorous foreign policy and its desire to remain aloof from the East-West struggle and has joined the Atlantic Pact as its best chance for future security. Since the last CFM the Danish Government has been strengthened, and Communist influence, never great, has declined, particularly in the labor movement.

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BENELUX

The Netherlands, in December 1947, was reluctant to enter any binding military or political agreements with other Western nations and was striving to maintain a neutral position in the East-West struggle. The economic situation, while improving over the immediate postwar period, required trade with other states without which it could have become a threat to Western European economic recovery and stability. At present, Dutch-US relations are closer than in 1947, and the positive value of the Netherlands to US security has increased considerably. Internal economic recovery, progress toward the Benelux Economic Union, and expanded trade with all of Western Europe—all greatly assisted by ECA—have strengthened the Dutch economic position. Dutch willingness to participate in Western Union and the Atlantic Pact and to assume a more active role in Western European affairs indicates a determination to remain closely allied with the West. Dutch military strength in Europe will remain negligible until the Indonesian conflict is resolved. Dutch-US friction over Indonesia has increased but has not seriously hampered cooperation on other problems.

At the time of the last CFM, the Dutch were more fearful of the revival of a powerful Germany than were the occupying powers but wanted enough German economic recovery to stimulate Dutch-German trade. Dutch participation in discussions on the Ruhr, following the failure of the London CFM, brought Dutch views on Germany more in line with those of the Western occupying powers. The Dutch are now less concerned with reparations and desire sufficient German recovery to permit active German participation in Western European trade.

Little change has occurred in Belgium's attitude toward the East-West struggle in the past sixteen months. Changes in the political and economic positions in Belgium have been changes in degree rather than in kind. Usually a supporter of the US-UK, Belgium's active participation in the Western European Union and the Atlantic Pact, and its greater integration with Western Europe through participation in ERP have enhanced the value of Belgium as an ally of the US. Conversely, closer Belgian association with the West during the past sixteen months, accompanied by declining Communist influence and a growing will to resist Sovietization, have decreased Belgium's value to the USSR both as a potential sphere of influence and as a Soviet-occupied area in the event of war. Belgium's strong economic position has contributed to recovery in Western Europe, and, although its military capabilities have not increased, the nation has the potential for expanding and improving its armed forces.

As in the case of the Netherlands, Belgium in December 1947 feared the resuscitation of a powerful Germany but desired a revival of Belgian-German trade. The inclusion of Belgium in the Western Powers' discussion on Germany following the breakdown of the CFM at London has brought Belgian views closely in line with those of the Western occupation powers. Belgium now wants a politically federated but economically united Germany with sufficient economic recovery to permit greater German contributions to the Western European economy.

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In the past sixteen months, Luxembourg's value to US security has been enhanced insofar as that little state has become more closely associated with other Western European countries in ERP, Western Union, and the Atlantic Pact. With continuing political stability and economic prosperity, Luxembourg, in its own small way, is a stabilizing factor in Western Europe. With the abandonment of its traditional neutrality, Luxembourg has advanced far in its attitude toward international and regional cooperation. Generally, Luxembourg follows the Belgian lead in foreign affairs but is more acutely aware of a possible threat from a revitalized and aggressive Germany.

GERMANY

In Western Germany the economic and political situations in December 1947 were little removed from the chaos resulting from total military defeat and subsequent Allied policies of dismantling, decartelization, and denazification. Both the Bizonal Council and the *Laender* governments were required to follow Allied directives in these matters and at the same time legislate for the German people in such a way as to bring into effect the democratic objectives upon which Allied occupation was founded. Without political experience, strong leaders, or popular support, the German governmental agencies established by the occupying powers were compelled to struggle against the apathy and inertia induced by the ruin of the country and the almost hopeless task of reconstruction and rehabilitation. The problem of the people was one of mere survival amid the wreckage of their former existence and the conflicting policies and systems imposed by their conquerors.

At the end of 1947 Western Germany faced economic disaster. Industry was functioning at a very low level; the currency was worthless except for the purchase of limited food supplies which were in such short supply that many sections of the country were threatened with starvation. There was little incentive either to work or to save. Heavy imports of food from the US kept the population alive, but in view of the financial situation the Germans could do little to revive and to rehabilitate industry. Agriculture was depressed; crops were 50 percent of normal, and Western Germany was cut off by Soviet action from its usual source of food from Eastern Germany.

The importance of Western Germany to US security has been considerably enhanced since December 1947. The three western zones, constituting a valuable industrial area available to the West and denied to the USSR, have shown signs of great economic recovery in the past twelve months. The people, who always detested occupation but preferred that of the Western Powers to that of the Soviet Union, have come even more to detest the USSR as a result of the Berlin blockade, and have given correspondingly greater support to the West because of the success of the air lift. The unsatisfied demand for consumer goods in short supply, coupled with the tremendous postwar increase in currency in circulation, raised prices more rapidly than wages, and has brought about labor unrest. Industrial production, however, has practically doubled, since currency reform in June 1948, and business has been greatly stimulated. ECA has assured industry of an adequate supply of raw materials, but war damage, dismantling, and obsolete equipment have tended to limit capacity in

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the absence of capital for replacement and reconstruction. Heavy food imports are still required to maintain the 2,000-calorie ration, but the 1948 crop yield was about 80 percent of prewar and represented a considerable improvement over 1947. The proposed new German Government is still an unknown and untested entity with many points of disagreement, real and potential, between German leaders and the occupation authorities. Since 1947, the Germans have become increasingly aware of their renewed importance as a factor in the European balance of power.

The situation in the eastern zone of Germany has changed little during the period under discussion. Economically, the zone has deteriorated somewhat, largely because of Soviet occupation policies including that of ruthlessly bleeding the country for the benefit of the USSR. The deterioration has not, however, reached an alarming state in terms of Soviet security. The stability of the Communist-controlled governmental agencies in the Zone was and still is guaranteed by the presence of the Red Army.

AUSTRIA

Comparison of conditions in Austria at the end of the last CFM with those existing today shows that essentially Austria's importance to US security, and conditions within the country which constitute fundamental problems, have not altered. Efforts by the US, the UK, and France to treat the Austrian problem separately from that of Germany and the East-West conflict have not so far been successful in effecting a treaty and ending the occupation of this liberated country. Despite very considerable economic improvement and continued strong political stability, the uncertainties of Austria's future loom as large now as they did in December 1947. Soviet capabilities in Eastern Austria, based on military occupation, have in no way diminished. In one respect conditions in Austria and Austria's position in Western Europe have assumed a new importance. Austria has remained a pro-Western and democratic nation whose cooperation with the US, although partly motivated by economic necessity, has been maintained in the face of Soviet occupation and pressure and despite encirclement on three sides by Soviet-controlled areas. The fate of Austria and US policies in regard to it may have a far-reaching effect in continuing the consolidation of Western Europe, both politically and economically, and in strengthening the morale of the Western European people and their determination to resist Soviet aggression. This effect may be greater than the position, size, and potentialities of the country on the East-West struggle would seem to warrant.

IBERIA

On the Iberian Peninsula, the changes which have occurred since the London CFM have resulted from a deteriorating economic situation. In Spain, in December 1947, the general economic situation was better than at present, but the general standard of living was extremely low. Spain's economy continues to deteriorate. This could lead to government breakdown and disorder. Should such conditions arise, the Communist Party—small but well organized—would make a determined effort to exploit them. It would not, however, be able to take control of the country.

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The morale of the armed forces has declined, but Franco retains their loyalty. So long as this is the case, he will remain in power.

The attitude of the people and of the government toward Germany remains unaltered. Radical supporters of the Franco regime are sympathetic toward Germany, but the majority of the people are indifferent. During the war the common people were pro-Ally.

In December 1947, although indications had appeared that such war-induced prosperity was terminating, Portugal was still enjoying the prosperity brought to it by the war. Today the economic situation is rapidly deteriorating. Portugal has encountered great difficulty in marketing its exports, but at the same time must keep its imports at a high level. Portuguese foreign exchange is nearly exhausted; yet wheat, petroleum, and other essentials must be bought abroad. Little danger existed in December 1947 from the Portuguese Communist Party, and little danger exists today.

The Portuguese attitude toward Germany has undergone almost no change. The government and the upper classes were and are favorably disposed toward a settlement which would permit Germany to function again as a nation. The people have little interest in the problem.

SWITZERLAND

There have been few fundamental changes in Switzerland since December 1947. In the East-West struggle Switzerland has reaffirmed its neutrality, but there is some indication that it is collaborating economically more with the West than with the East. The Swiss are generally less suspicious of US motives in Europe than they were sixteen months ago. Switzerland continues to enjoy great prosperity.

GENERAL CONCLUSIONS

It would appear that during the period between the last CFM and the present, the strategic position in Europe of the Western Powers has materially improved. France, Italy, Norway, and Denmark are now firmly in the Western camp. France and Italy now possess moderate and relatively stable governments; both nations are making rapid strides toward economic rehabilitation, and both have shown a material improvement in the organization and training of their military establishments, even if the improvement in material has not been great. The UK, Benelux, and the Scandinavian states, through their own economic improvement and cooperative efforts, are contributing to the economic recovery of the entire region. Although in Western Germany the political and economic situations have shown marked improvement, the area remains of immediate concern to US security. In Austria, the Western Powers have more than held their own in the East-West struggle. In general, all the states of Western Europe have come, during the past sixteen months, to view the problems in Germany in much the same light as they are viewed by the US and the UK. While France still greatly fears a resurgence of German military might, the French have accepted the broad principles of the tripartite plan for revival of the German economy and the establishment of a political system for Western Germany. In general, too, the governments and peoples

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of Western Europe have come to a much greater realization of the menace to themselves of international Communism and have evinced a hardier determination to combat it. They, too, have come to recognize the fact that national Communist Parties owe allegiance to Moscow alone and that the USSR is, therefore, the real and only danger to their security.

Only in the Iberian Peninsula has the situation deteriorated. Deterioration in that area, while posing long-range problems, some of which the US may be called upon to solve, is not of serious immediate importance in the present phase of the East-West conflict.

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