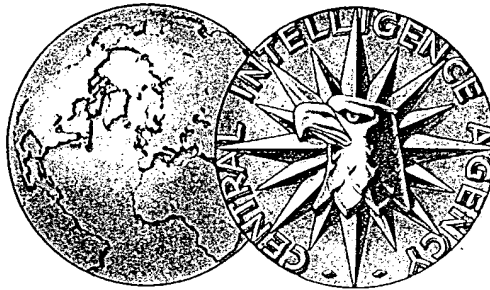


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RELEASE IN FULL
GOVERNMENTAL PROGRAMS ON
NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS FOR FY 1951



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Published 22 September 1949

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GOVERNMENTAL PROGRAMS ON NATIONAL SECURITY AND INTERNATIONAL AFFAIRS FOR FY 1951

PROBLEM

1. Given a proposed substantial reduction of appropriations for governmental programs in national security and international affairs for FY 1951, to estimate

A. The effect upon the non-Soviet world in

FY 1950, FY 1951, and subsequent years to 1955.

B. The effect upon the security position of the US vis-à-vis the USSR

(1) As of the end of FY 1950.

(2) As of the end of FY 1951.

ASSUMPTIONS

2. It is assumed

A. That the proposed substantial reduction for FY 1951 will become public knowledge in the course of FY 1950.

B. That over-all economic activity within the US will remain at approximately its present level for the period under consideration.

C. That existing governmental programs in national security and international affairs will be implemented in FY 1950 in approximately their present form.

D. That the objectives and aims of US policy with respect to the USSR and the security interests of the United States are as stated in NSC 20/4.

FACTS BEARING ON THE PROBLEM

3. It was estimated in CIA 4-49, of April 1949, that the global security position of the US relative to the USSR had slightly improved in twelve months. This conclusion was based on the favorable trends that had been developed in Western Europe and which were considered to have outweighed on balance unfavorable trends in the Far East. It was stated, however, that the trends were so uncertain that they indicated opportunities for development and not accomplished fact. It was accordingly considered that the more favorable position could not be validly projected beyond the short term.

While no significant positive change has taken place in the position between April and August 1949, these favorable trends are being modified by the adverse trends noted in para. 4 below.

The categorical summary of the position, as given in CIA 4-49, however, remains approximately the same: Europe—definitely more favorable to the US; Near East—basically unchanged; Far East (China and Southeast Asia)—definitely less favorable to the US (N.B. A slight improvement has taken place in Southeast Asia since April 1949); Far East (Offshore islands)—slightly less favorable; Latin America—basically unchanged for the US, definitely less favorable for the USSR.

4. The following unfavorable trends, which have originated outside the problem, are considered now to be overtaking the favorable trends noted in CIA 4-49. They are:

A. The deterioration of the international financial position of the UK and the effect of this deterioration on the capacity of the UK

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 30 August 1949.

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to support its present role in the maintenance of a combined US-UK security position.

B. The tendency, enforced by present dollar shortages, of states or groups of states in the areas intermediate to the US and the USSR to develop autarchic economic policies, and the effect of this development on the US security interest in the economic and political stability of such states and in the maintenance of the domestic economy of the US.

C. The expanding Communism of the Far East.

5. For the purpose of estimating, it is assumed that currently operative forces and trends continue in effect. The possible modification of these forces and trends by events or actions which are conceivable, but not pre-

dictable, has not been taken into consideration. It is to be noted, however, that the intensity of the reaction to the proposed reductions, as well as the development of the unfavorable trends listed in para. 4 above will be governed to a large extent by (a) the success of such action as may be taken to check these existing unfavorable trends, (b) the degree to which present and prospective recipients of US aid can be persuaded to accept the idea that a condition of permanent dependence upon US resources is neither possible for the US nor desirable for the recipients, and (c) the degree to which the US convinces the non-Soviet world that its military force and potential will continue to be available for use in restraint of Soviet aggression.

DISCUSSION

For discussion of 1 A see Enclosure "A".

For discussion of 1 B see Enclosure "B".

CONCLUSIONS

6. The proposed reduction will significantly reduce, within FY 1951, the capacity of the US to pursue the objectives and aims stated in NSC 20/4, and may in the critical years subsequent to FY 1951 invalidate those objectives and aims.

7. Within FY 1950 the principal effect of the proposed reduction will be the definitely unfavorable psychological reaction of the non-Soviet world and a concurrent boost to the Soviet world. This reaction will tend to give support to already existing adverse trends such as:

A. The deterioration of the relative economic position of the UK.

B. The tendency, enforced by present dollar shortages, of states or groups of states to develop autarchic economic policies.

C. The expanding Communism of the Far East.

8. While it is estimated that there will be considerable economic consequences in FY 1950 and FY 1951, it is not considered that these will inevitably and of themselves lead to a serious deterioration of the US security position within FY 1951, if the countries affected are given ample time and are able to prepare

compensatory adjustments. It is noted, however, that such adjustments would probably take the form of a greater dependence on bilateral trade agreements, including an increase in East-West trade, some reductions in standards of living, delays in implementing investment programs, and firmer patterns of economic autarchy—courses of action which, for the most part, would run counter to US international economic objectives, and the full development of which might well have an adverse effect on over-all economic activity within the US in FY 1951 and subsequent years.

9. The interaction of psychological factors and economic adjustments, initiated in FY 1950, will develop, in the course of FY 1951, into positive trends unfavorable to the over-all US security position vis-à-vis the USSR. These trends will be supported, in part by the unimpeded development of already established trends in the Far East; in part by the psychological, economic, and political adjustments of Western Europe; in part by the further trend toward instability which will have been introduced into the situation in the Near and Middle East; in part by the decline in US

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military strength; and in part by the Soviet-Communist exploitation of the opportunities that will have been opened. The deterioration of the over-all-US security position may not, however, reach a critical point within FY 1951, provided that the current situation in various key strategic areas, such as Germany and Greece, is kept under control.

10. The years subsequent to FY 1951 will be critical in terms of the US security position vis-à-vis the USSR, unless effective counter-measures have been devised and are being implemented. At that time, the accumulating effects of unfavorable trends abroad and of Soviet exploitation of enhanced opportunities, will come into juxtaposition with the full effects of reductions in programs related to US national defense.

11. The military capabilities of the US will begin to depreciate before the close of FY 1950

and will decline at an accelerated rate thereafter. Comparatively, mobilization capabilities will be more affected than the forces in being. The substantial reduction in US military capabilities will heavily tip the international balance of power in the direction of the USSR which is expected to maintain its present capabilities and even to add to them by continued efforts to improve weapons and produce atomic bombs.

12. If the adverse developments noted in 10 and 11 above continue unchecked to a point where the US decides that it is necessary to attempt to redress the balance vis-à-vis the USSR, the restoration of the situation in terms of the aims and objectives of US policy as set forth in NSC 20/4 would be more difficult and more costly than the maintenance of the present situation with respect to those aims and objectives.

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ENCLOSURE "A"

The effect upon the non-Soviet world in FY 1950, FY 1951, and subsequent years to 1955.

DISCUSSION

1. In FY 1950 the reaction to the proposed reduction will be primarily psychological. It will take many variant forms, and it will be most profound in the countries that consider that their interests and objectives have been equated with US support. Certain common features will be generally present: an interpretation of US policy as undependable, or reverting to isolationism; a fear that US military strength will decline; a conviction that national policies, free from dependence on the US, must be quickly found and vigorously developed. This initial reaction will guide economic and political adjustments. The effects of these adjustments will develop slowly and not become significant before FY 1951. In general, they will tend to shape up into a trend unfavorable to the interests and security position of the US and resistive to the objectives and aims of US policy. In the absence of counter-measures, they can be expected to lead, in the years subsequent to FY 1951, to a critical deterioration of the over-all US security position.

2. General Reactions, Regionally Considered.

A. *In the UK*, reactions to US foreign economic policies will already have been shaped by the outcome of the September conversations in Washington. A reduction of appropriations according to the terms of the problem, involving as it would a small amount of financial assistance in relation to UK requirements, could not be expected to produce any marked additional popular reaction, nor any substantial economic effect. Official analysis will probably conclude, however, that it has become essential to develop a policy capable of being largely implemented from UK-Sterling Bloc and non-dollar area resources.

B. *In Scandinavia*, there will be a swing back to the concept of a neutral bloc, accom-

panied by a growing lack of definition in foreign policy. However, no drift toward genuine accommodation with the USSR is to be anticipated.

C. *In Western Europe*, the reaction will generally take the form of diminished confidence, hesitation and circumspection in relations with the US, less capacity to resist external and internal Soviet-Communist pressures.

D. *In the Near and Middle East*, it will generally take the form of questioning the dependability of the US as a counter-force to Soviet expansion.

E. *In the Far East*, it will generally take the form of a reduced capacity and will to resist the Communist pressures which are being exercised outwards from China and internally in individual countries. This reduced capacity will show in two ways: fatalistic acceptance of compromise by present holders of authority, and popular identification of nationalist aspirations with Communist political dynamism.

F. *In Latin America*, there will be a loss of confidence in the US, less willingness to accept US leadership, and a search for independent courses of action, particularly on the part of Argentina, and, possibly, Chile.

3. Economic Repercussions and Adjustments, Regionally Considered.

A. *Western Europe*.

Economic activity, especially industrial production, has probably been sufficiently restored to cushion to some extent the immediate and short-term effects of the proposed reduction. There should be no *purely economic consequences* in FY 1950, but in FY 1951 the effects of the reduction upon the international financial positions of the Western European countries would have considerable adverse economic repercussions. If the proposed re-

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duction were notified in a way that gave time for compensatory adjustments, the *purely economic changes* that would take place should not produce of themselves a significant adverse security trend within FY 1951, provided that the adjustments are not accompanied by serious labor troubles. The more thoroughly and successfully these adjustments are made, however, the greater the possibility of their working to restrict over-all economic activity within the US.

The types of adjustment would be:

(1) a reduction of purchases in the dollar area and an increase in bilateral agreements and trade restrictions; with a further diminution of the prospect of re-establishing a system of multilateral trade.

(2) an expansion of East-West trade, essentially as an exchange of industrial goods for foodstuffs and raw materials; with a consequent weakening of the US policy of controlling exports to the Soviet-Satellite Bloc.

(3) an acceleration of the long-standing trend toward economic autarchy.

(4) and, as far as continental Western Europe is concerned, economic-military decisions, involving demands for specific compensation from the US for the use of bases and strategic installations and a lowering of the presently negligible military potential insofar as it is applicable to the maintenance of US security.

These adjustments would be accompanied by a lowering of standards of living, a slowing down of investment programs, and by considerable competition between social welfare expenditures and presently projected rearmament programs. In these connections, political repercussions will develop and, hence, it will not be valid for FY 1951 to isolate *purely economic consequences*. (See para. 4 A, B below.)

For example, the reactivation of economic activity has derived from more than US material assistance. One of its conditions has been the encouragement and security provided by alignment with the industrial and military potential of the US. This has given a reasonable assurance against Soviet military action and Communist political subversion.

The possible destruction of, or even the introduction of momentary doubts concerning this intangible factor make it unrealistic, therefore, to estimate consequences in *purely economic terms*.

B. Near and Middle East.

Even in FY 1950, Greece and Turkey will be faced with major economic problems as a result of the reduction of US aid. Elsewhere in the area there will simply be an over-all slowing down of the entire process of creating economic stability. (See para. 4 C below.)

C. Far East.

The economic problems and consequences of a proposed reduction will be essentially psychological and political, with the impact falling chiefly in Japan and Southeast Asia in FY 1950. During FY 1951, however, a substantial reduction of imports in Japan might well lead to internal disturbances requiring increased security measures. The relation between US aid to support Japanese economy and Japanese vulnerability to economic and political pressure from a communized Asiatic mainland is a direct one.

D. Latin America.

More strenuous efforts will be made to develop country and regional economic autarchy and to enter bilateral and limited area trade agreements.

E. Inter-regional Stockpiling Programs.

The proposed reduction in stockpiling expenditures would probably result in a curtailment of development programs in the producing areas. It would also result in a reduction in dollar earnings of the owning countries (especially the United Kingdom and the Netherlands) to the extent that purchases were curtailed. These reductions would have unfavorable political repercussions in the producing countries and would add to the difficult adjustments which the European colonial powers will be obliged to make.

4. Political Repercussions, Regionally Considered.

A. *The UK*. There would be no significant political repercussion in the UK. The major political parties would react in identical ways: an immediate concern with the psychological

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and political effects in Western Europe, and an effort to reduce UK dependence on the US.

B. Western Europe. In France and Italy instability would be greatly accentuated in FY 1950, as the moderate governments, which have rested upon US subsidies and have maintained themselves by US-supported programs of cooperation, come under serious attack from both Right and Left. The adjustments such governments will be required to make will very probably lead, during FY 1951, to well-defined political polarization. The probable direction of political change will be, by way of coalitions, to governments of the Right. The stage will be set, in the years subsequent to FY 1951, for an increasing struggle for power between extremist groups. However, the basic political struggle in the Benelux countries, Scandinavia, Western Germany, and Austria will still be between democratic elements of the Right and Left (e.g., the CDU and SPD).

C. Near and Middle East. No generalization is valid for this region. Greece, Turkey, and Iran, because they are adjacent to Soviet-Satellite territory, are in a special category. Israel, as a newly formed State, has unique problems. The Arab countries are divided among themselves. The Indian subcontinent is remote from the operation of regional factors. It is in the parts of the region bordering the USSR that an unfavorable reaction in FY 1950 can most rapidly develop into a critical situation in FY 1951, and that the security position of the US can be most speedily undermined.

(1) *Greece.* The situation in Greece is so potentially unstable that it is considered that a substantial reduction cannot safely be applied until six to twelve months after the guerrillas have been reduced to "manageable" proportions, i.e., 2,000-3,000. Reduction prior to this time would stimulate fresh Soviet-Satellite pressure while reducing Greek ability to oppose such pressure. The immediate reaction in the circumstances would be a breakdown of civilian and military morale, the fall of any coalition government, and probable attempts to form an authoritarian regime. The speedy disruption of even the present semblance of political unity would be followed by

further decline in the already low standard of living, by disaffection among refugees, and by a deterioration in internal security.

(2) *Turkey.* The immediate effect would be a tightening of political controls with power concentrated in reactionary groups. Economic development would be checked and resources allocated on a rising scale to the armed forces. The value of Turkey as a "bastion" would gradually diminish. A basic shift to neutrality, with the implication of accommodation with the USSR would not occur, however, unless Greece and Iran fell under Soviet domination.

(3) *Iran.* Currently obsessed with obtaining US aid, the government, especially the Shah, would receive word of the proposed reduction with apparent anger and alarm. Even without US aid, efforts would probably be made to build the military establishment to unrealistic proportions at the expense of programs for economic development. The present anti-Soviet sentiment, however, would probably not change. The US would find it much more difficult to exert its influence toward increasing internal stability through economic and social development, and Iranian vulnerability to Soviet pressure would steadily increase.

(4) *Israel.* The immediate effect would be to strengthen pro-Soviet political parties. MAPAM, the largest, would be in a position to press to enter the government. The present policy of neutrality would be increasingly emphasized. Of slower development would be the delayed effect of world-wide economic adjustments on the capacity of Israel to become a viable state.

(5) *Arab States.* Denial of aid in the maintenance and resettlement of Arab refugees would intensify unrest in the area. Denial of aid to Saudi Arabia would lead to difficulties in connection with the Airbase Agreement, but would not be critical in the long term. The other states would probably move to rebuild their relations with the UK and France. Economic stability and internal security would probably worsen slowly in FY 1951, with the rate of adverse development depending to a certain extent on the situation in Turkey and Iran.

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(6) *Indian Subcontinent.* No significant reaction since the area is fairly well conditioned to the idea that large-scale material aid will not be forthcoming from the US in any circumstances. There would, however, be a diminution of US influence.

D. The Far East.

With the exception of the costs of occupying and assisting Japan, already approved US expenditures in the region are relatively small. Korea and the Philippines are the other principal recipients. The Republic of Korea is wholly dependent on US economic and military aid for its survival. The severe psychological effect of a reduction would lead in a straight line to Communist domination. It is considered, however, that the ultimate communization of Korea can only be delayed, not prevented, and that the essential question here is the value of delay in relation to the general security position of the US in the region as a whole.

In Japan, a more complex issue will be raised. Japan continues to be essential to the maintenance of a US security position in the region. Yet the cost of maintaining Japan cannot be reduced without permitting the Japanese government to re-establish many of its prewar economic relations abroad, the most important of which were with the now communized Northeast Asia mainland. Any reductions outside this context will generate political and social problems—political polarization and social disorder—that will in themselves compromise US control. A trend of this kind, if initiated in FY 1950, is likely to develop rapidly in FY 1951. In conjunction with a generally worsening security position in the Far East, efforts to check or reverse the trend in the years subsequent to FY 1951 will involve granting Japan greater freedom of action in the region.

Although the proposed reductions will be politically used in the Philippines to whip up anti-US sentiment, it is not considered likely that US influence will be significantly affected during the period under discussion. Present commitments are contractual or authorized through FY 1951.

In Southeast Asia, the psychological reaction will reduce the US capacity to influence the course of events, and the tendency toward accommodation with Communism will increase. (For effects of reduced Stockpiling Programs, see para. 3 E, above.)

E. Latin America. US influence will diminish in FY 1951 and subsequent years, more in consequence of psychological factors than reduced expenditures. This lessened influence will be marked in more remote countries, scarcely noticeable in those of the northern area. Diminishing confidence in US power relative to the USSR will strengthen the advocates of neutrality in the East-West struggle and will open the way for Argentine leadership of a "neutral" bloc that will tend to trade its influence in international organizations instead of uniformly supporting the US in major US-USSR issues.

5. Soviet-Satellite Reaction.

A. It is considered that the proposed reduction will be interpreted as indicating that new opportunities have been opened for vigorous exploitation.

B. It is considered that such exploitation will include a fully developed propaganda campaign with themes designed to:

- (1) undermine confidence in US policies, dependability, and economic strength;
- (2) intensify insecurity, distrust, and fear;
- (3) create psychological impediments to rapid and successful adjustments;
- (4) vindicate the Communist views of historical development and the superiority of the Soviet system.

C. It is considered that this campaign will be accompanied by a maximum use of political and economic weapons.

(1) Increased political and economic agitation, and industrial subversion by local Communist Parties.

(2) Diplomatic and economic pressures to conclude political and trade agreements with the Soviet-Satellite Bloc.

(3) Financial manipulations and commodity dumping to impede economic readjustment.

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ENCLOSURE "B"

The effect upon the security position of the US vis-à-vis the USSR:

- A. As of the end of FY 1950.
- B. As of the end of FY 1951.

DEFINITIONS

1. It is considered, for the purpose of this problem, that the basic security interest of the US for the indefinite future, as set forth in NSC 20/4, is to keep the dispersed power resources of Europe and Asia from being drawn into a Soviet power system; and that the maintenance of this interest requires that states in the areas intermediate to the US and the USSR should identify to the maximum their political aspirations and security interests with those of the US, and that the

economic and social structure of the US should be kept viable and adaptable.

2. It is further considered that the relative power of the US and the USSR has been kept in a state of precarious balance since 1946 by the fact that Soviet force in being is weighed against US industrial potential, US guarantees abroad, and certain technological advantages, of which the US possession of the atomic bomb and the ability to deliver it is perhaps the most important.

DISCUSSION

Estimate as of the End of FY 1950.

3. It is considered that, within the terms of the problem and assumptions, the adverse trends noted in para. 4, page 1, are likely to develop more rapidly and comprehensively than would otherwise be the case. It is not, however, considered that a fundamental modification of the global security position of the US relative to the USSR is likely to occur within FY 1950, provided the existing situation in certain key strategic areas (Central Europe, and Greece-Turkey-Iran) is maintained in at least its present form. Regional modifications in relative positions are likely to occur, most notably in the Far East; and, while such modifications may have significant long-term security implications, they do not necessarily threaten US security in the short-term, nor need their short-term effects be regarded as representing irrevocable losses or irreversible trends.

4. In continental Western Europe the combination of an unfavorable psychological reaction and the compensatory economic and security adjustments that will be initiated, will lay the groundwork for renewed political instability. In the UK, intensified efforts to develop a position of maximum economic in-

dependence from the US will probably result. In Scandinavia, a growing uncertainty in foreign policy will develop, as well as increased support for a return to the concept of a neutral bloc. In Central Europe, the proposed reduction will be exaggeratedly interpreted and will be over-emphatically reacted to. In Western Europe, generally, the desire for economic and political integration will continue, but practical progress in this direction will be checked by the type of adjustment that individual states will make to reduced US aid. Although military cooperation at planning and technical levels is likely to be speeded up, military readiness will be reduced in proportion to the degree to which US aid is withheld. Over-all relations with the US will continue of necessity in their present pattern, but will be marked by hesitation, circumspection, and diminished confidence. The area of practical cooperation with the US in collective security will tend to be narrowed to those interests that are of immediate concern to the states of the region.

5. In the Mediterranean region and the Middle East, it is considered that the relative US security position will continue in its present form, provided the local situation in

Greece is not permitted to deteriorate. The present uncertain internal stability of the region is, however, likely to become more precarious if the factors producing instability are given freer rein by the development of doubts about US intentions. While no large-scale programs designed to check such factors (excepting ECA in Italy and subsidies in Greece and Turkey) are in operation, expectations of aid have been created by both US and UK policy. The proposed reductions will tend to weaken US, and indirectly, UK influence, and the existing partial checks on progressive instability will be diminished.

6. In the Far East, although the generally unfavorable position developing in this region arises from factors unrelated to the problem, it is considered that this development will be given added impetus. An unfavorable psychological reaction will occur, most pronounced in those countries that feel themselves directly exposed to Chinese Communism, more diffusely in those countries that believe themselves in danger of Communist subversion. This reaction will generally work to supplement an already adverse trend by encouraging a tendency to compromise with a regionally successful force and by encourag-

ing nationalist movements to place their hope in Communism rather than in US promises.

7. The military capabilities of the US will begin to deteriorate before the close of FY 1950. As soon as news of the proposed reduction for FY 1951 becomes public, the NME will lose many key and specialized personnel. This loss of the personnel and the preliminary preparations for closing out or reducing many activities and functions of the NME will seriously impair the effectiveness of their operations even before the beginning of FY 1951.

8. Assuming that specific events or effective counter measures have not reversed the current unfavorable trend, a categorical summary of the estimated global security position of the US vis-à-vis the USSR at the end of FY 1950, can read:

A. There should be no fundamental change in the basic US security position provided a limited number of key strategic positions are maintained.

B. Trends, ultimately unfavorable to the US security position, will be present and will be developing at an increasing rate.

C. There will be increasing opportunities opened to the USSR for exploitation by the techniques of a "cold war."

Estimates as of the End of FY 1951

9. Within the terms of the problem, and in the absence of comprehensive counter measures, it is considered that the global security position of the US relative to the USSR will, in the course of FY 1951, begin to approach the point at which serious deterioration can set in. It is not considered, again provided that key strategic positions continue to be maintained, that obviously significant changes will necessarily have taken place; but simply that the structure of US security as presently conceived will have been weakened. The chief factors working toward this end will be the accumulating effects of adverse trends that have been recognized as operative in FY 1950 and the exploitation of these trends by Soviet-Communist action.

10. In France and Italy, political instability will probably develop toward political polari-

zation. Political authority will tend to shift toward the Right. The line of cleavage of political forces will be between a nationalist Right with dictatorial overtones and an internationalist Left under Communist direction. The pattern of economic adjustment and commercial and financial policy will complement the political tendency. The pattern will probably be controlled, defensive, and nationalistic. The pressure of insecurity may further step up the degree of military coordination, but the economy will not be able to provide the equipment needed to make defense plans realistic. Cooperation with the US may well be limited to those precise respects in which US objectives can be equated with local security interests. The intangible guidance which the US now gives in answering a collective security problem will become dispersed

and ineffective, and agreements will more and more depend upon bargaining and well-defined *quid pro quos*.

11. Elsewhere in Western Europe, particularly in the United Kingdom, political instability will be much less serious than in France and Italy, and will stem from general economic maladjustment rather than from the reduced appropriations which constitute the terms of this problem. There will be no significant political polarization. Communist influence will not appreciably increase, nor will right-wing authoritarianism gain any substantial following. The British will probably try to carry further the development of an integrated, non-dollar trading area, which will include the Commonwealth and Empire (except Canada), as much as possible of Western Europe, and perhaps a few other countries with a recalcitrant dollar problem, such as Argentina. Discriminatory trade practices against the dollar area will be pursued. But military cooperation with the US will continue because US and UK strategic interests are virtually identical. The British ability to maintain armed strength and overseas commitments, however, will not improve.

12. In the Mediterranean, Near, and Middle East, regional instabilities will probably increase as the indirect consequences of the proposed reduction are more widely felt. The decline of US influence will encourage the states of the region to seek alternative sources of strength externally or to develop artificial appearances of strength within themselves. In Greece, Communist elements, even if the guerrillas have been liquidated, may be encouraged to attempt a new test of strength. Turkey and Iran will probably interrupt their plans for economic development and allocate their resources to military uses. The value of Turkey as a US "bastion", and the internal stability of Iran will be reduced by such a change. The Arab States will probably try to revive their UK or French connections; but, even if these were wholly re-established, the UK and France would not be able to provide the material assistance needed to check the forces creating instability. Positive shifts of alignment toward the USSR are not indicated. An increase in the opportunities opened to the

USSR for subversive action designed to make the region a weaker element in the structure of US security is indicated. Political, social, and economic instability will probably spread from the Near East along the North African littoral. The French, particularly if policy is increasingly directed by the Right, will meet this challenge to their control with repressive measures. These developments will tend to make it more difficult to utilize the Mediterranean region in support of the presently conceived US security position.

13. In the Far East, where adverse factors are already in vigorous operation, the most likely trend will be toward a more rapid extension of Communist influence on the continent. In this connection, the situation in Japan will become increasingly important. The re-establishment of Japan as a viable state becomes essential to the maintenance of a minimum US security position in the region. It is recognized, however, that the conversion of the Asiatic mainland from an area from which the US has been excluded to an area constituting an offensive threat to the over-all US security position will not take place within the period under consideration.

14. Within FY 1951, there will be a decline in US military capabilities. The multiple and diverse activities associated with the reserve forces, the improvement of weapons and equipment, and the general plans and operations in preparation for the expansion of the NME in time of national emergency will be seriously curtailed. Reductions in the important adjuncts of NME—AEC, the MAP and the strategic stockpiling programs—would further adversely affect the military position of the US and the Western Powers. These substantial reductions in US military readiness will tend to shift the international balance of power in the direction of the USSR, which is expected to maintain its present capabilities and even to add to them by continued efforts to improve weapons and produce atomic bombs.

The Western Powers, which have been encouraged by the US to take a firm stand against Soviet aggression, will be discouraged by the prospect of a decline in US military capabilities and in the amount of direct US

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assistance in building up their own military forces. Their determination to resist Soviet aggression will weaken accordingly, with a consequent weakening in the basic US security position.

15. Again assuming that specific events or effective counteraction have not reversed the current unfavorable trend, a categorical summary of the global security position of the US vis-à-vis the USSR, as of the end of FY 1951, can read:

A. A definite reversal of the existing favorable situation in Western Europe.

B. A more rapid development of the existing unfavorable trend in the Far East.

C. A progressive instability in the key strategic region of the Mediterranean, Near, and Middle East.

D. An increase in the number and variety of Soviet-Communist pressures and a constant probing for points of weakness in the US security position.

Estimates of the Probable Situation in Other Regions

A. Indian Subcontinent.

Beyond a reduction in the US capacity to influence events in this region, no significant change is considered likely in FY 1950 or 1951 in consequence of the proposed reduction.

B. Latin America.

In connection with this region, important for the general support of the US security position rather than because of any danger of its falling immediately within a Soviet power system, it is noted that US influence will gradually diminish through the period under con-

sideration. The most significant consequence will probably be the development of neutral positions and a tendency to use the Latin American voting strength in international organizations for bargaining purposes rather than uniformly to support US objectives in major US-USSR issues.

C. Africa.

Except for the North and West African littoral, which has been considered above, this region is considered to be comparatively irrelevant to the problem stated and for the period under consideration.

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