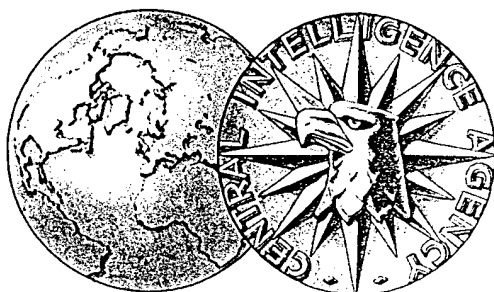


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CURRENT SITUATION IN ICELAND

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CURRENT SITUATION IN ICELAND

SUMMARY

On 12 August 1949, the Icelandic Parliament was dissolved, primarily because the weak, three-party coalition government in office since 1947 could not agree upon measures to combat inflationary economic conditions and restore fiscal stability. Iceland's foreign exchange reserves are critically low; and its fishing industry, which produces more than 90 percent of the country's exportable commodities, is burdened with excessive costs due primarily to a very high wage scale. Its products can meet normal competition in world markets only with the aid of heavy government subsidies, which are unbalancing the national budget. The only practicable solution to the problem lies in governmental action to reduce production costs in the fishing industry and to establish the standard of living at a level which the economy of the country can support.

Elections are scheduled for 23-25 October, but it is very unlikely that they will produce a government strong enough to take the painful measures required. It is practically certain that no party will obtain an absolute majority of parliamentary seats; the most probable outcome is another coalition government or a minority government precariously conducted by one party. Either such administration will be forced to compromise rather than to adopt firm stands on controversial issues.

One result of the election appears certain: the Communists will lose votes and seats. Their chances of membership in the new government are nil. Their influence in Iceland markedly declined after the party was excluded from the government in 1947, and the decline was accelerated when in the following year they lost control of the Icelandic Federation of Labor. The Communist Party is no

longer a very important factor in Icelandic politics; it can neither make nor unmake a government. Despite their lack of direct political influence, the Communists can still arouse and solidify a fairly strong segment of public opinion, and create doubts as to the wisdom of government policy on certain issues.

Owing to the lack of effective internal security forces in Iceland, Communists have the capability of seizing power by a *coup d'état*. This capability is not recently acquired, however, and there is no reason to expect that the Communist Party would attempt a *coup* without prior assurance of Soviet support. There are no immediate prospects that Iceland will create a security force able to counteract the existing *coup* capabilities of the Communist minority.

Iceland favors cooperation with and is influenced by the Western democracies. Its closest attachments are to the Scandinavian states, especially Norway. Though a signatory of the North Atlantic Treaty, Iceland places much emphasis on its "special position" as a small, unarmed nation which "cannot declare war." Icelanders are opposed to the establishment of foreign military bases on their island in time of peace, but would probably be willing to receive NAT forces if war or the threat of war made Iceland's involvement seem imminent.

The US-Iceland Airport Agreement, affording the US landing rights for military planes at Keflavik Airport, is subject to renegotiation in 1952. Present indications are that the US will not be able to renew the Agreement in its present form. Icelanders will probably hold out for an arrangement under which airport operations, though subsidized by other Western Powers, will be conducted under Icelandic responsibility and direction.

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 27 September 1949.

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CURRENT SITUATION IN ICELAND

1. Political Situation.

Iceland's Parliament was dissolved by the President on 12 August 1949, principally because of the inability of the government to formulate a program of economic readjustment acceptable to the government parties. The present Cabinet will remain in office until after the new elections, which are scheduled for the three-day period beginning 23 October.

Since early 1947 the government of Iceland has been carried on by a weak coalition of the three non-Communist political parties: the Conservatives, representing the owners of fishing and large wholesaling enterprises, with 19 seats in the Althing (Parliament); the Progressives, representing agrarian, cooperative, and small retailing interests, with 14 seats; and the Social Democrats, who draw their support largely from the laboring class, and hold 9 seats. These three parties thus commanded 42 out of the 52 seats in the Althing, but they originally agreed to cooperate, not because of common views on most political issues, but because cooperation assured fulfillment of their common desire to exclude the Communists from participation in the government. The nation's economy was not a vital political issue when the coalition was formed, and the government was able to avoid highly controversial legislation during the early part of its existence. A rapidly deteriorating economic situation accompanied by inflation soon brought the need for an effective remedial program, however, whereupon each party in the coalition opposed those deflationary measures which would adversely affect the interests it represented. The intensely personal and partisan nature of Icelandic politics also hindered effective government. Various specific problems were dealt with by compromises which failed to remedy the underlying economic difficulties. A few months ago the three parties of the coalition began each to anticipate gains for itself at an election, and to bid against one another for popular support; under such cir-

cumstances a new election soon became inescapable.

The problems which the new government will face have been modified by Iceland's decision to devalue its currency following the course of the pound sterling. Iceland's economic difficulties have not been eliminated by this action and in some aspects may have been aggravated. An inflated wage scale in the fishing industry is a primary factor in creating production costs which exceed the market value of the final product. Government subsidies have therefore been granted in order to keep the fishing fleet operating. The standard of living thus maintained appears to be above that which Iceland's economic potential, almost wholly comprised in the fishing and fish processing industries, can support. Correcting this condition will be a painful process, and one for which none of the political parties cares to be responsible. If done as an act of considered policy, rather than as an unplanned response to unavoidable circumstances, it will require drastic measures by a strong government; yet the prospect that a strong government will emerge from the coming elections is slight.

There is no present indication that the outcome of the election will change the relative strength of the three non-Communist parties, though all may gain votes at the expense of the Communists. The possibility of a single-party majority government thus is extremely remote. Another three-party coalition commanding a working majority is possible, but it would require major concessions by the parties for successful cooperation on basic economic policies. A two-party coalition (most probably of Conservatives and Social Democrats) or a single-party minority government may be formed, but such governments would probably not be capable of the decisive actions which are required.

The Communist Party, a legal organization in Iceland, having about 1,000 members, ac-

quired ten seats in the Althing in the last election, in 1946. Representatives of the party were included in the Cabinet, but they soon withdrew in protest against the signing of the US-Iceland Airport Agreement. When the coalition was formed early in 1947, Communists were excluded, and their position forthwith began to weaken. The Communist Party, as such, is no longer an important factor in Icelandic politics. It can no longer make or unmake a government; it will lose votes in the coming election, possibly two out of its ten seats, and its chances of participating in the new government are nil.

Despite their lack of direct political influence Communists can still arouse and solidify a fairly substantial segment of public opinion particularly by acting through front organizations and fellow-travelers. Until recently the Communists managed to appear more Icelandic than the Icelanders, and had some success in exploiting nationalism and the pronounced parochial tendency toward isolation from foreign influences. Events abroad, however, and Communist activities against the Atlantic Pact caused other Icelanders to suspect the sincerity and loyalty of the local Communists, whose influence has thus declined. It has not vanished, however, and may extend far enough to create doubt in the public mind as to the wisdom of the government's foreign policy, which is strongly committed to cooperation with the West.

Energetic and combined efforts by Social Democrats and Conservatives at the 1948 convention of the Icelandic Federation of Labor Unions ousted the Communists from control. This loss further weakened Communist ability to influence the making of public policy. Nevertheless, the parties constituting the government have been restrained from actions likely to arouse labor dissatisfaction by their fear of provoking a revival of Communist influence. The inevitable downward adjustment in living standards, which cannot be much longer postponed, will afford the Communists an opportunity to regain a portion of their former prestige among the laboring classes. Nevertheless, in the absence of a major international crisis or an extreme deviation from present policies by the Icelandic

non-Communist parties, there is slight possibility that Communist success in exploiting such an opportunity will be sufficient for them to regain participation in the government or significantly to affect the stability of a new government.

2. Economic Situation.

Before the war Iceland's relatively low standard of living was firmly based on earnings from exports. During the war, however, large allied military expenditures and competitive bidding for Iceland's limited labor supply destroyed the long-established equilibrium. Moreover, the immobilization and diversion of European fleets permitted Iceland to increase the selling price of fish and fish products, and to apply part of the proceeds to periodic increases of wages in the industry. The standard of living rose to wholly unprecedented heights. After the war, the resumption of activity by European fleets brought renewed price competition, and in 1947 the Icelandic Government, fearing the political consequences of labor dissatisfaction, chose to subsidize the fishing industry rather than to restore its competitive position by measures which would reduce wages. This initial method of dealing with the problem set a precedent for the 1948 and 1949 fishing seasons, and monetary wages are above the wartime peak. A return to economic stability is contingent upon substantially decreased costs, which cannot be achieved without real wage reductions. The possibilities of employing modern equipment to reduce costs have already been virtually exhausted since postwar expenditures for ships and equipment have almost completely modernized the fishing fleet.

An enforced decline in the war-achieved standard of living through lack of foreign exchange was averted in 1948 by the arrival of ERP aid. Such temporary relief did not affect the basic difficulty, and Iceland's scanty dollar holdings are now insufficient to meet the country's inflated requirements or to cushion even a minor economic crisis. Continuation of subsidies to the fishing industry and to agriculture (26 percent of the 1948 Treasury expenditures) has increased the national debt from \$8.4 million in 1945 to \$26.1 million in

1948 and placed the nation's finances under severe strain. There is growing difficulty in paying for imported consumer goods. Meanwhile, demands by labor for further wage increases threaten to augment inflationary pressures.

The general economic problem, which is fairly clear-cut and is understood by most Icelanders, has nevertheless been confused during the past years by one factor: the abnormally low seasonal catches of herring, which have not run in their accustomed numbers at the usual times and places. Because of the unpredictability of the herring runs, Icelanders have comforted themselves with a hope that next season the herring would again be plentiful, and drastic economic adjustments could be avoided. Thus some semblance of weight has been given to the arguments of those who opposed drastic wage adjustments. Devaluation of the currency remains an issue and the labor parties oppose it on the grounds that it would lower the standard of living. These facts have contributed to the indecision of the Icelanders as they confront the necessity of remedial measures.

Devaluation continues to be the most controversial of the proposed remedial measures even though Iceland devalued its currency to conform to the course of the pound sterling. Devaluation on a multilateral basis does not afford Iceland the benefits it had hoped to achieve by unilateral devaluation, however, and the trade position in the European market remains relatively unchanged. In view of the relative unimportance of the dollar area as a market for Iceland's exports, only minor benefits can accrue from devaluation with respect to the dollar. Out of devaluation arise other problems also which may become extremely troublesome to the new government. The Federation of Labor Unions has been preparing to terminate the current labor agreement so as to be free to negotiate if the cost of living rises sharply. Dagsbrun, Iceland's largest and most important labor union, will seek to protect its members against the effects of devaluation by demanding compensatory wage increases and its Communist-dominated leadership will not hesitate to call a strike to achieve its aim. Dagsbrun members, to the

last man, would probably walk out, and if the strike became prolonged it could completely cripple economic activity.

3. Foreign Affairs.

Solely because of its strategic location, Iceland has been drawn into the current of world affairs, albeit unwillingly and hesitantly. Icelanders desire only to be left alone, but it is as clear to them as to others that their island will not be left alone in war, perhaps not even in peace. The experiences of World War II were not agreeable to Icelanders; they strongly disliked the presence of foreign troops, primarily because they feared diluting effects upon their language and culture. They have not, however, remained unaware of the "cold war," and recently they were called upon to make a fateful decision: whether or not to associate themselves with other western nations in the North Atlantic Pact.

On 4 April 1949, Iceland signed the Treaty; its ratification was deposited on 1 August. The debates and discussion preceding the signature showed conclusively that when faced with the necessity of choice, the basically pro-western Icelanders favored cooperation with the western democracies. In the Althing, the vote favoring participation in the Pact was 37, with 13 opposed and 2 abstaining. The issue was one of very few in which the coalition government achieved real solidarity. Nevertheless, it was probably Norway's decision to join which had most effect in shaping Icelandic opinion; without taking courage from the participation of their Scandinavian kinfolk, it would perhaps have been impossible for Icelanders to take a step so contrary to their ingrained attitudes.

Despite its membership in the North Atlantic Pact, Iceland continues to place much emphasis upon its "special position" as a small unarmed nation which "cannot declare war." It will accept no foreign military bases in time of peace, but if war or threat of war were of such a nature as to make Icelandic involvement appear imminent, it is probable that majority opinion would favor the establishment of such bases by Treaty members.

Apart from the obligations of the North Atlantic Treaty, the chief concern of Icelandic foreign affairs with respect to the United

States is the Airport Agreement of October 1946, under which the US enjoys landing rights for military planes at Keflavik Airport in connection with its occupation duties in Europe. This agreement is subject to renegotiation in 1952. It provides that the US shall operate the technical facilities of the field, and there are proponents in all Icelandic parties for revising the agreement to give Icelanders more operating control. Both the Conservatives and the Progressives have promulgated resolutions to that effect, and the Foreign Minister, in discussing the Atlantic Pact, emphasized Iceland's desires in this connection. One of the arguments advanced by those favoring the Pact was that it would afford a basis for revision of the Airport Agreement. Present indications are that in 1952 the United States will not be able to renew the Agreement in its present form; all Icelandic parties will probably have placed themselves in such a position that they cannot avoid categorical opposition to renewal on present terms. Nevertheless, Iceland feels justified in requesting other nations to provide financial support for maintaining operations at the airport, despite its own present inability to contribute either a substantial portion of the operating costs or adequately trained operating personnel. A US-sponsored program to provide technical training for Icelanders may eventually solve the latter problem.

Iceland's foreign relations are closest and most cordial with the Scandinavian countries. Since becoming a member of the United Nations in November 1946, Iceland has normally adopted the line taken by the Scandinavians on most UN issues, and has periodically conferred with Norway, Denmark, and Sweden, especially before UN sessions. Among these three nations, Iceland's strongest attachment seems to be for Norway.

Iceland is one of the very few countries not a member of the British Commonwealth and Empire which remains in the sterling area. It recently became the recipient of the first postwar foreign loan raised from private sources in London.

4. Internal Security.

Iceland has no military forces. The internal security force available to the government

would be inadequate to cope with a well-organized internal disturbance. In the past, the authorities have successfully used unarmed special deputies when the control of large crowds was necessary, but such an expedient would not be sufficient in an unanticipated and serious emergency. Of the national total of about 160 policemen, the 119 located in Reykjavik constitute the only real law enforcement body. They are trained in the use of small arms and tear-gas bombs but are normally armed only with rubber truncheons. Communist infiltration in the lower echelons of the Police Force, probably a maximum of 30 percent, has caused the Minister of Justice to store the few available small arms in a location known only to himself and a few top-ranking police officers. The Reykjavik police could therefore be totally unarmed in the event of a surprise disturbance. The Fisheries Patrol of about 160 men could serve as an auxiliary force in an emergency, but their lack of appropriate training would render their efforts virtually ineffective.

A Communist decision to seize control of the island could be implemented with as few as 500 organized, armed men. Although the Communist Party has been capable over a considerable period of seizing power by force of arms it is unlikely that the Communists would attempt a *coup* without prior assurance of Soviet support, without which they could not consolidate or maintain their position except for a relatively short period.

Icelandic officials are aware of the inadequacy of their security forces, but Althing rejection of proposals to provide additional funds has prevented any significant expansion. Icelandic officials are considering the training and arming of Icelanders employed at the Keflavik Airport, but the plan has not yet progressed. Some officials also favor arrangements whereby the US would create a group of trained US personnel who could be provided with arms in an emergency, preferably in connection with US activities at Keflavik Airfield, but no satisfactory plan has yet been proposed. There are no immediate prospects that Iceland will create a security force able to counteract the existing *coup* capabilities of the Communist minority.

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