



DEPARTMENT OF STATE
BRIEFING MEMORANDUM

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To: The Secretary
From: EUR - Arthur A. Hartman

Monthly Report on European Affairs
(January 1975)

There is attached our monthly report on developments and trends in Europe. The initial section summarizes the broad political and social impact of the economic situation, reviews developments in Germany, Britain and Southern Europe, and discusses Europe's relations with China. The latter section comments on Soviet detente policy.

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Monthly Report

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Goethe's famous line that "nothing is harder to bear than a succession of fair days" would raise a few mirthless laughs from European leaders during a winter that has known few fair days either politically, economically or meteorologically. During the month the full vital statistics of 1974's grim economic situation came out, showing:

<u>prices up</u>	<u>balance of payments on current account (in billions)</u>
Germany 7.5%	+ \$9.7
France 15%	- \$6.7
UK 20%	- \$8.7
Italy 19%	- \$8.6

But worse, according to most expert predictions, is yet to come--with the first half of this year to see growth rates approaching postwar lows and unemployment postwar highs. Small wonder Europeans looked hard for any glint of silver linings. "Good news: trade deficit less than predicted," ran a lead headline in La Stampa while one in The Times gloated, "\$152m drop in Britain's monthly trade deficit," even though that particular deficit was one of the worst in British history. These days less disastrous news equals good news.

The two headlines say a lot about the current European mood. Following months of deep popular apprehension and grim warnings by government leaders about economic crisis--after inflation did in fact go up and employment down--Europeans found comfort in the fact that bad as things were, they could be worse and that the rate of economic decline appeared to be tapering off.

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Amid the Encircling Gloom

Now that Europe finds itself in the middle of the long-awaited crunch, what were the social and political effects of this severe recession? The most obvious characteristic of the January scene was stability. There was none of the social disorder that had been widely feared and no appreciable trade union agitation, except in Spain and Portugal and there as much for political as economic reasons. Politically there was no spread of extremism, and parliamentary opposition parties behaved with remarkable restraint. Apparently the warnings by government leaders last fall convinced the public that the economic crisis, being world-wide, was bigger than any individual country and not primarily the responsibility of the government in power. In November and December, as unemployment replaced inflation as the primary worry, most government leaders were seen to move quickly to combat it.

The question now is how far public patience can be stretched. In France and the UK unemployment in January is well over 700,000 and is climbing steadily toward the million mark which, as Embassy London pointed out, is the panic figure in Britain. In Germany the million figure was passed during the month. But though the outlook for unemployment and growth rates is bad for the coming six months, it is extremely unlikely that any European government will fall as a result. In Germany and Britain, however, the situation is precarious for deeper reasons, and continued economic difficulties could help to precipitate a political crisis sometime in the spring.

Shadowboxing on the Rhine

In Germany most everyone likes Helmut Schmidt but fewer and fewer people like his party. To the latest pollster's question, "If an election were held today, which party would you vote for?", they responded:

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Christian Democrats	53%
Social Democrats	38%
Free Democrats	7%

Moreover, in the six forthcoming Land elections, the Social Democrats face, largely for local reasons, electoral losses of greater or lesser magnitude, paralleling those in last fall's elections in Bavaria and Hesse. The question is whether Schmidt's prestige can be turned to his party's advantage or whether his party will drag him down.

For the Free Democrats the situation is even more menacing since politically they exist at the subsistence level. Not surprisingly there was increasing speculation during the month that the FDP might jump to the Christian Democrats, destroying Schmidt's government but saving themselves. On the Land level it was not just talk. The party organization in Rhineland-Palatinate announced on January 11 that it would like to join the CDU in a coalition after the March election. However, a similar proposal in North Rhine Westphalia, which could bring down the Bonn government, was promptly suppressed by the party's leader, Foreign Minister Genscher, and this brought an end for the moment to the party's drift. Both Genscher and other party officials have assured Embassy Bonn that they expect their party to survive in the forthcoming elections and to remain in the Bonn coalition until the federal election next year--and even beyond. But this sounds like bravado, and defeats at the polls might bring a sudden change of heart.

Being divided and leaderless, the Christian Democrats are not in a position to exploit these signs of coalition weakness. Like bawling Nibelungs, the CDU chieftains have been almost as concerned to keep one another from power as to seize it for themselves. Will a Siegfried--the lout who is fearless--push them all aside and take the prize for himself? That was the question as Franz-Josef Strauss appeared to be preparing

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perhaps a final time--he is 60--to take command of the party. The spring election campaigns may show whether Strauss can live down his past and develop the nation-wide appeal to take leadership of the party or will remain its perennial second most powerful man.

Britain's Labor Pains

Perhaps nothing during the month caught the condition of Britain better than the fact that unemployment and strike figures could not be issued because of a strike by government statisticians. In fact the strike situation has become so grave that Wilson--in an action that never comes easily to a Labor leader--strongly condemned striking auto workers, pointing out that as a result of such walk-outs in that industry alone 350,000 man days (20% of the man days of the whole industry) had been lost during 1974.

Other economic developments during the month were equally disheartening. Demand continues to weaken and unemployment to rise. New orders are falling off in major industries and the investment outlook is dismal. Prices continue to increase. On the point of collapse, Burmah oil joined the ranks of major British firms requiring government assistance to survive. Doctors and dentists rejected government proposals regarding pay and private patients. And even the deus ex machina in the form of North Sea oil suddenly lost some of its attraction for investors.

The politically most serious element in this situation was the growing potential for a split between the government and the trade unions. Finance Minister Healey in a speech in early January warned workers that they have the choice between unemployment and a reduction in wage increases, which had gone up on an average of 29% in 1974. Their casuistry equal to any test, the trade unions denounced the latter proposition as a pay cut, and consequently the social contract

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could stretched to the snapping point. Although a break between the government and the unions is not yet inevitable, the differences which have begun to surface summon up the specter of the cold war between them during Wilson's second administration, which itself was in fact brought down by the unions in 1970.

As the strain in relations increases, the tensions between the left and right within the government and the unions are growing. During the month there were signs that Britain's version of Strauss, Tony Benn, was preparing to make his move for power; it is anticipated that he will soon resign, possibly over the EC issue, and lead a left-wing challenge to Wilson's leadership. Benn's--and Wilson's--future could hang as much on the EC referendum as Schmidt's and Strauss' on the Land elections. The referendum, scheduled for late June, is becoming one of the most divisive issues of recent British history. Anti-EC groups have formed a broad coalition with the most influential trade union leader, Jack Jones, agreeing to play a leading role in it. Bringing together the extreme right of the Tories with the extreme left of Labor, the referendum will not only have historic significance for Europe but possibly also an important incidental impact on domestic British politics.

A Pink Dawn in the South?

The month's trends in Southern Europe generally pointed to the left. The mini-"historical compromise" between the Christian Democrats and communists in Venice was reinacted during the month by local Christian Democratic party organizations in several other areas of Italy. This development is further evidence of increasing Christian Democratic interest in reaching some practical accommodation with local communist parties. The decision of both the Christian Democrats and communists to support abortion legislation is another sign

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of the social and political shifts now taking place in Italy.

There are also signs of growing fermentation in Spain though almost everyone remains paralyzed--or hypnotized--by Franco. However, recent weeks have seen some of the worst labor troubles in Spain since the civil war--work stoppages, plant sit-ins, retaliatory walk-outs, firings and battles with the police. Most of these difficulties started with economic motivations but became rapidly political once under way. While all strikes in Spain have a political character since they are illegal, the one entirely political strike was the general strike in the Basque country last month which got out 150,000 workers, as such the most successful strike since the civil war. The focus of labor unrest in January shifted to Barcelona and to a lesser extent Madrid. The prospects are for labor agitation to go on.

In Portugal the struggle for power became more open during the month. Although communist popular support was slipping, the general trend of developments was clearly to the left. While the moderates in the Armed Forces Movement remained in the majority, the leftists in the Movement have the upper hand and increasingly acted in collusion with the communists. In the several showdowns during January, the left consequently had its way. A communist-supported labor law that places the trade union movement under communist domination, thereby providing the communists with a sure power-base, was approved over the opposition of socialists and moderates. In Oporto on January 25 leftists successfully forced the cancellation of a conservative Center Democratic Social Party convention. The military themselves banned the socialist rally to be held in Lisbon on January 31. But the moderates are beginning to organize themselves and could do well in the April election--though this very prospect could provoke the left to postpone or cancel it.

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Chinks in the Soviet Western Flank

The visits to Peking in January of Dutch Foreign Minister van der Stoel and Franz-Josef Strauss, who was unexpectedly invited to see Mao, highlight the recent progress in Chinese-European relations.

Since their opening to the West at the beginning of the decade, the Chinese have increasingly seen Western Europe as a central element in their objective of political and psychological encirclement of the Soviet Union. The stream of European visitors to Peking in recent years have all heard the same litany: Europe should maintain a close alliance with the United States; NATO conventional forces should be strengthened; US-European military cooperation must be sustained; and the American troop presence in Europe must be preserved. At the same time the Chinese condemned as a Soviet deception the whole detente policy as manifested in Ostpolitik, SALT, MBFR and CSCE. Keeping up a strong political and military guard, they insisted, was in the West's own best interest since Europe rather than China was the primary target of Soviet aggression. The Soviet Union, they told German Foreign Minister Scheel in 1972, was merely making "a feint to the East while attacking the West," a statement repeated publicly in August 1973 and subsequently by Chou himself.

More and more Europe has become the focus of Chinese interest, flattery and cajolery. In the past six or seven months alone Makarios, Heath, Kohl, Mintoff, Hartling, van der Stoel and Strauss have visited Peking, and Schmidt, Rumor and Tindemans will soon follow. In April Vice Premier Teng Hsiao-ping went to Paris and in October Vice Minister of Foreign Affairs, Chiao Kuan-hua, visited Bonn and Paris. In Bonn Chiao spoke out for German reunification, and there was some press comment at the time that this support of what is still an official goal was a welcome courtesy that had not been heard in some time by foreign visitors to Germany.

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As the pace of contacts in recent months increased, the Chinese attitude toward Europe was given a new twist. In the wake of US-Soviet detente, Watergate and the strain on US-European relations, the Chinese began to deal with Europe separately from the United States. This new approach was publicly enunciated last April by Teng at the special session of the UNGA when he said that Europe has a common bond with the Third World in the need to oppose superpower hegemony. One sees here a second important strand of Chinese policy and one representing a longer-term strategy: an independent Europe standing in opposition to both the United States and the Soviet Union.

Chou took up these themes in his January 13 speech to the National People's Conference, and gave in addition his first public endorsement of European integration. The new approach is further reflected in Chinese trade policy in which preference is occasionally shown for European over American products. Moreover, after years of raising and dropping the question of formal relations with the European Community, the Chinese have apparently decided to move ahead, informing van der Stoel during the month that they hope to accredit a mission to the Community in March or April.

At the moment the Chinese are following both approaches--Europe with the United States and Europe vs the superpowers--merely changing emphasis as seems expedient. In their meetings early in January with van der Stoel, for instance, they called for Western Europe to develop an independent and credible nuclear force while with Strauss a few days later they stressed that American and European security interests are inseparably intertwined or, as Teng put it, "American defense begins in Europe." There is no evidence so far that the Chinese are working against our interests in Europe, and in their meetings with Strauss they argued strongly for a continued American assumption of much of the European defense burden.

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Peking's "guest list" and the views expressed to the visitors it make it obvious that the Chinese are most comfortable with conservatives and old-fashioned anti-communists. Our Liaison Office in Peking links Strauss' exceptional treatment with a statement by Chiao that the most dangerous forces in Europe are the liberal-socialist governments, duped by Soviet detente propaganda but, thanks to the economic crisis, soon to be replaced by conservative governments less taken in by Moscow. The question arises whether this approach could give the Chinese some scope for mischief in domestic European politics.

Although a trip to China is now one of the rites of political leadership, European governments continue to regard their political relationship with Peking as essentially platonic. Apart from some trade prospects, they see at the moment little in China for themselves. Nor are they apt to be a good long-term proposition for China. They will sooner or later have to puncture China's dream of turning them and the EC into instruments of anti-Soviet policy. Helmut Schmidt did precisely this when he told Chiao that security and detente are mutually supporting and that the Chinese defense of Arab oil policy conflicts with their desire for a strong, unified Europe. And it is significant that upon his return to Bonn, Strauss met with Schmidt and joined him in a public statement that the Federal Republic has no intention of improving its ties with Peking at the expense of relations with the Soviet Union.

In sum, China has some importance to the British because of Hong Kong, may exercise a lurid attraction to the German right-wing, appeases French antagonism to superpower dominance and is an object of some fascination to all, but she does not otherwise occupy a significant place in the domestic affairs or the foreign policy of any European country. Politically, there is no yellow fever threat in Europe.

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