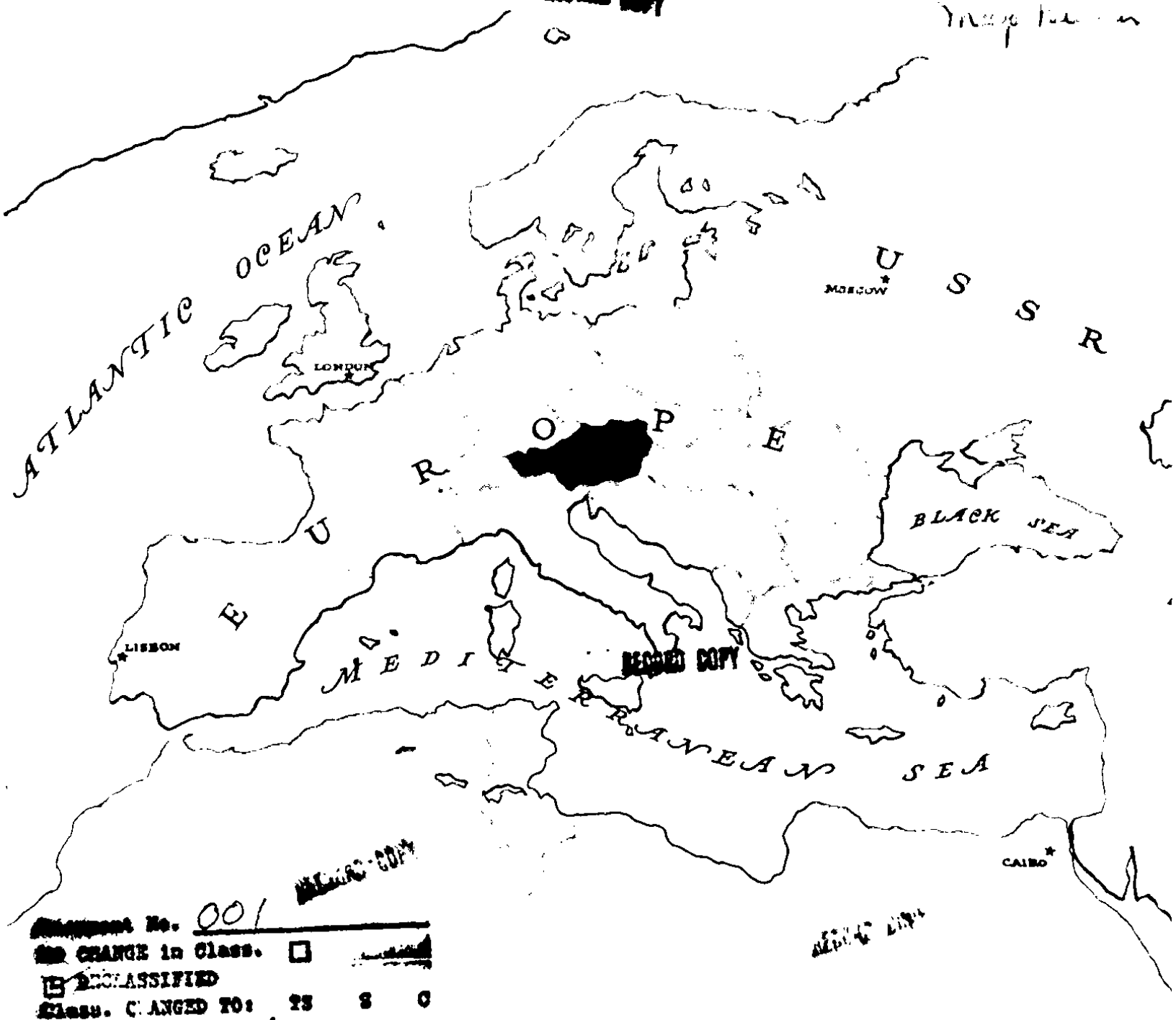


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SUMMARY

The present political temper of the Austrian people is conditioned by the straitened economic circumstances and the political experiences which they suffered from the Treaty of St. Germain in 1919 to the *Anschluss* in 1938. Because of the economic impotency of the country, occasioned by the Treaty, Austria was compelled to rely on foreign economic support and to alter its form of government from a democracy to that of a semi-fascist state. Although re-established as an independent nation after World War II, Austria still suffers from the war's political and economic aftermath — aggravated by the East-West struggle which complicates the four-power occupation of the country — and remains economically dependent on foreign powers.

Austria's relation to US security lies in: (a) its position, second only to Germany, as a critical point of contact in Central Europe between the Western Allies and the USSR; (b) its importance to US objectives throughout Western Europe; (c) its pivotal position in the rail and water transportation network of Central Europe; and (d) its strategic location along the northern border of Italy, flanking Czechoslovakia and Germany and bordering on the Balkans. The nation's military capacity is microscopic; its place in US economy negligible.

In November 1943, Austria — with nearly seven million highly literate and industrious people living in an area approximately the size of the state of Maine — was declared a "liberated" country. Like Germany, however, Austria is subject to quadripartite occupation; Vienna, like Berlin, is divided into four zones of occupation. In contrast to Germany, the Occupation Powers in Austria have officially recognized the national Government, which has entered into diplomatic relations with a large number of states. The sovereignty of the Government is restricted, however, by the Allied Commission for Austria, and is greatly limited by the conditions of four-power occupation, termination of which is the single immediate desire of the Austrian Government and People.*

Soviet policy is designed to force Austria into the satellite orbit through economic and political pressure. Owing to the extreme weakness of the Austrian Communist Party, the USSR has sought to force changes in the composition and orientation of the Austrian Government primarily through prolonged delay on the Austrian treaty and, concurrently, through economic penetration. Soviet demands for "German assets" alone involve a claim which is valued in excess of 700 million dollars. Soviet leaders probably reason that Austria can be forced into the satellite economic orbit provided they can secure a treaty which would permit the USSR to continue operating these

* Although Austrian enthusiasm for an early treaty has subsequently been reduced by the recent Communist coup in Czechoslovakia, the Government still favors a treaty which will give adequate assurances of Austrian political and economic independence.

NOTE: The information in this report is as of January 1948 except where otherwise stated.

The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

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properties outside the jurisdiction of Austrian laws. The USSR has also apparently calculated that in the absence of a treaty, hunger, unrest, economic stagnation, and general discouragement will tend to create a situation wherein an offer of food, free Danube navigation, and trade opportunities could be exchanged for Austria's accession to the Soviet orbit.

It is possible that certain long-term considerations may lead the USSR to make some concessions in its economic demands on Austria.* The Kremlin has an obvious interest in the withdrawal of the occupation forces of the Western Allies from Austria. Soviet leaders may reason that with complete quadripartite troop withdrawal, they would be able to exert increased pressure on the present Government through internal economic controls and political subversion, supplemented perhaps by threats of border aggression from Yugoslavia and Hungary. Soviet representatives have already blocked proposals to permit the Austrian police to carry adequate arms.

While the USSR would be capable of communizing its zone of occupation by violence or by a forced partition of the country, it has not embarked on such a program, nor are such moves likely in the near future. From the Soviet point of view a *putsch* or a forced partition would seem undesirable because it would: (a) forfeit western Austria to the US, UK, and France, thereby delaying and perhaps damaging Soviet chances of absorbing all of Austria; (b) as a further evidence of Soviet expansionism, unnecessarily antagonize the US; (c) prolong Western occupation in a strategically important area of Europe; and (d) deprive Soviet-operated industries in eastern Austria of valuable sources of raw materials and semi-finished goods in the western zones of Austria.

The policies of the US, UK, and France are designed to support Austria politically as an independent and democratic entity, and to complete as soon as possible a treaty to implement this objective. The US and the UK have extended economic aid in pursuance of this policy. The French, despite a desire to adhere to Western policy, have been unable to extend financial support to Austria; they have, on the contrary, exploited their zone of occupation for their own immediate purposes and have also laid claim to German assets.

In the immediate future, Austria's political prospects depend upon its ability to survive quadripartite occupation intact, and upon the conclusion of a treaty which will permit it to resist absorption by the USSR. Austria's long-term political prospects as an independent democratic state depend chiefly on the degree to which the national economy is restored and stabilized and the extent to which Austria can be successfully integrated into the economy of Western Europe. Both major political parties, the People's Party and the Socialist Party, are pro-Western and are strongly entrenched both in their long political tradition and in the social structure of the nation. It is expected that these two parties will continue for several years to cooperate in a coalition Government. The long-term stability of such a democratic coalition will, however, be subject to serious strains arising from: (a) a basic divergence of aims between the two parties aside from their own common opposition to the USSR; and (b)

* Current Soviet tactics at the London negotiations (April 1948) on the Austrian treaty have followed this pattern, and suggest strongly that the USSR now favors conclusion of a treaty.

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the fact that traditional ideological differences may be unduly intensified owing to personality conflicts between opposing political cliques.

Austria's economic prospects are precarious. At present, Western subsidies are maintaining the economy on a subsistence level and are bolstering it against complete Soviet domination. The USSR, from an existing major foothold, seeks to draw the remainder of the Austrian economy into the Soviet orbit. The critical short-term situation heavily overshadows the longer-term possibility that, given both a re-establishment of Austrian political and economic autonomy and a general European politico-economic improvement, the country's expanded and more diversified economic potential will be capable of a more sound and stable economy than that enjoyed during the prewar period. As an optimum, the Austrian economy cannot be expected to stand on its own feet in less than four years.

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SECTION I

POLITICAL SITUATION

I. GENESIS OF THE PRESENT POLITICAL SITUATION.

Three major forces are relevant to the contemporary Austrian political scene: (a) separation from Germany; (b) economic collapse as a result of the war; and (c) quadripartite occupation which has caught the nation in a struggle between the Western democracies and the USSR.

As a background to this scene, and as part of an examination of the Austrian capability for democratic self-government, it is desirable to consider briefly the fate of the Federal Republic of Austria as established by the Treaty of St. Germain in 1919. From 1273 until 1918, Austria had been the heart of the former possessions of the House of Hapsburg. At their height, these had a total population of 52,000,000 and included such diverse national elements as Germans, Magyars, Czechs, Poles, Croats, Serbs, Slovenes, Italians, and Rumanians. These peoples were held by adroit political maneuvering in an imperial framework which, despite many difficulties, was on the whole so successful as to justify the observation: "If Austria did not exist, it would be necessary to invent it." The people who formed the core of this paternalistic regime, possessed in 1919 little of the sense of political individualism that is an essential of democracies.

The Austrian Republic was born unwillingly in a period of great economic hardship and social unrest. The reluctance was not merely ideological; the majority of Austrians believed that a nation of seven million could not exist as an economic entity in the middle of Europe. They therefore preferred union with Germany as the most natural and traditional, and perhaps the most realistic, solution for their problem. At any rate, the Austrian sentiment for *Anschluss* was strong from the beginning. In 1934, the Republic in its constitutional form fell victim to a variety of internal and external pressures and was succeeded by a dictatorship.

The chief immediate factors responsible for the eventual collapse of democracy in Austria were the following: (a) Austria's desperate economic position led the Government to pursue unpopular deflationary policies in order to gain necessary foreign support. The control exercised by foreign powers over Austrian economic and foreign policy in turn served to bring the whole system of parliamentary democracy into disrepute. (b) The authority and prestige of the Government was further compromised by lack of Austrian national consciousness. This was evidenced by *Anschluss* sentiment as well as by strong provincial loyalties — the latter being accentuated by the antagonism between the Austrian Socialist movement centered in Vienna, and the clerical and conservative forces, centered mainly in the rural provinces. (c) The two major parties, the leftist Social Democrats and the rightist Christian Socialists, were unable to compromise their opposing interests and ideologies. Behind both parties stood rival para-military organizations: the Socialist *Republikanische Schutzbund* and the

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rightist *Heimwehr*. The dominant wings in both parties were controlled by powerful extremists who tended to regard parliamentary democracy as a temporary form of government. (d) As the dominant Christian Socialists came to rely internally on rightist and pro-German factions for political support, the Republic became increasingly dependent on Fascist Italy, and subsequently on Nazi Germany.

A final step in the destruction of the Republic occurred in March 1933, when the Christian Socialist Government, defeated by the opposition of Socialists and Pan-Germans, refused to recognize the validity of the voting and declared Parliament in abeyance. A year later a "Rump" session of the Lower House approved a long list of emergency decrees, including a new fascist-type constitution which created the "Christian-German Federal State of Austria on corporative lines." This "corporative" constitutional phase from 1934-1938 was characterized by: (a) the suppression of the Socialist and Communist Parties and of civil liberties generally; (b) the substitution of four different bodies representing social, economic, and cultural groups for a democratic parliament; (c) a weakening of Vienna's political position; and (d) a constitutional strengthening of the position of the Catholic Church.

Having forcibly suppressed the Socialists, the Schuschnigg regime was unable to withstand German pressure after Italian support had been withdrawn, and in March 1938 the nation was absorbed by Germany. In April 1939, Austria disappeared as a political entity when, by authority of a German law, the country was split up into seven different districts (*Reichsgaue*) under their own governors and administrators. Austria, therefore, participated in the subsequent German war effort as an integral part of the German Reich.

2. PRESENT GOVERNMENTAL STRUCTURE.

The present Austrian Government operates within the framework of a constitutional system. The Constitution is essentially that of 1920 as amended in 1929.* It sets up a republican state, based on a federal structure similar to that of the US, and it provides for democratic institutions and practices — including free elections, government responsibility toward the electorate, judicial independence, a bill of rights, etc.— such as are characteristic of the traditional concept of parliamentary, liberal democracy. The constitution provides for a federal President, a national government headed by a federal chancellor, a national parliament consisting of two houses, a provincial governor and parliament for each of the nine federal states, and subsidiary districts and local governmental agencies.

The present national Government was formed after the elections on 25 November 1945. It is subject to the authority of the Allied Commission (AC), as stated in the Control Agreement of 28 June 1946. This Agreement theoretically improved the po-

* The main effects of the reforms of 1929 consisted in strengthening the power of the President at the expense of the Lower House and coincidentally, at the expense of the party bosses. The President, rather than the Lower House, was empowered to appoint the Government, although the confidence of the Lower House was still necessary. Even more important, the President could dissolve the Lower House with the assent of the Government, although he could only do this once for the same reason and fresh elections had to be held within ninety days.

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sition of the Austrian Government by stipulating that only constitutional laws would henceforth require unanimous approval of the four powers; all other legislation would automatically go into effect if the AC failed to act upon it unanimously within thirty-one days after it was submitted. In practice, however, the effect of this relaxation of Allied controls was vitiated by other provisions which left a number of important matters subject to the jurisdiction of each zonal commander. Thus, in case any one power disagreed with the decisions taken on the national level, it could in certain cases countermand them in its own zone of occupation. The USSR took widest advantage of this possibility for unilateral action in its zone of Austria with regard to such matters as the distribution of food supplies and petroleum products, the seizure of German assets, and the nonrecognition of Austria's nationalization of certain industries.

The present Government is a coalition of the People's Party and the Socialist Party, with the Communists in opposition. On most major issues the Communists have voted against the Government; they have also conducted an intensive campaign attacking the Socialist-People's Party coalition and calling for new elections even before the end of the occupation.

3. POLITICAL PARTIES.

In the national elections of November 1945, the conservative People's Party (successor to the Christian Socialists) received 49.8 percent, the Socialist Party (formerly the Social Democrats) 44.6 percent, and the Communist Party 5.4 percent of the total vote. Thus the People's Party obtained an absolute majority of 85 deputies; the Socialists elected 76 deputies; and the Communists four (the first time the latter had ever elected representatives to Parliament).

The existence of two parties to the left of center (the Communists and Socialists), as against one to the right (the People's Party), was a novel development. During the parliamentary period (1918-1933), the two left-wing groups were opposed by at least three parties composing a right-wing bloc. The emergence of a one-party bloc on the right in 1945 came about because the former Pan-German and Nazi parties could obviously not be revived. Thus the People's Party, successor of the Christian Social Party, also became the successor of these formerly independent right-wing agrarian, Pan-German, *Heimwehr*, and Nazi Party groups, as well as numerous resistance groups.

The excesses committed by the Soviet Army were largely responsible for the victory of the People's Party, the anti-"Red" character of which was widely appreciated. A vote for the People's Party was therefore an open and convenient expression of antagonism to the USSR. The Socialist Party, as a proponent of Marxist theory, correspondingly suffered a loss of votes, despite its traditional anti-Communist position. It did, however, succeed in generally holding the worker vote against strong Communist election propaganda.

Details concerning the three political parties represented in the government follow:

(1) *People's Party.*

Support. The People's Party represents primarily middle-class, industrial, and peasant interests, is closely affiliated with the Catholic Church, and looks to the

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US for support. It has become the reservoir of all right-of-center political forces, a number of which had been organized in separate party groups before the *Anschluss*. As a consequence, the party includes heterogeneous class and sectional interests, some of which constantly threaten its unity.

Platform. It aims primarily at the maintenance of a capitalist democracy modified roughly along the lines of the social and political program of the Catholic Church.

History. It was founded as the Christian Social Party in the 1890's, and represented originally the lower middle classes, and subsequently the peasants, the aristocracy, and business and industrial interests. Between 1920 and 1934, the Christian Socialists were the chief party in Austria. Lacking a majority in Parliament, they succeeded generally in maintaining their control of the government by coalitions with other conservative parties, notably with the Pan-Germans. Throughout this period, the Christian Socialist position regarding the Constitution, Hapsburg restoration, and the *Anschluss* remained ill-defined. Under Dollfuss, the Christian Socialists were directly responsible for the overthrow of the liberal constitution of 1920 and the imposition of an absolutist regime in 1934. The fact that the Christian Socialist leaders who participated in the dictatorship of 1934-1938 were generally subjected to German oppression along with prominent Socialists and Communists made possible the re-emergence of the party in 1945 under a new name, the People's Party.

Since then, as the only non-Marxist party in Austria, it has been widely supported and, in the elections of November 1945, it lost only two provinces to the Socialists (Vienna and Carinthia) and won an absolute majority in the provincial parliaments of five provinces (Upper Austria, Lower Austria, the Burgenland, Styria, and Salzburg), as well as a two-thirds majority in two provinces (Tyrol and Vorarlberg).

(2) *Socialist Party.*

Support. The Socialist Party represents chiefly the interests of the working and lower middle classes. The party is highly disciplined and, despite some Communist inroads, it has the overwhelming support of the trade unions. The greatest source of Socialist strength remains in Vienna, although the party has considerable support in the provinces, notably in Carinthia, where it presently enjoys a majority in the provincial parliament.

Platform. It aims chiefly at the establishment of a socialist democracy, in general corresponding to the program of the British Labor Party. At the same time, it is a firm supporter of the US. Its leaders advocate greater national centralization of power at the expense of the provinces. Its record, despite its Marxian dogma, has been one of unqualified and consistent opposition to Communism and the USSR. This has increased Socialist prestige and strength since the November 1945 elections at the expense of the People's Party, elements of which at one time favored making certain tactical concessions to the USSR in the hope that such concessions would make possible an Austrian treaty and the subsequent ending of quadripartite occupation.

History. The Socialist movement in Austria has long been among the most important in Europe. It is traditionally internationalist and is characterized by the

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extremely broad variety of cultural and cooperative economic activities which it has sponsored. Austrian Socialism, particularly from 1918-1934, was characterized by theoretical extremism coupled with practical moderation. By theoretical extremism it was able to retain within the party left-wing elements which would otherwise have drifted into the Communist camp. Although its Marxist dogma also inspired the active enmity of powerful clerical, conservative, and peasant groups, by practical moderation it was able to extend at least a degree of party influence over some of the peasants as well as over the lower middle classes.

The ability of the Socialist movement to survive suppression under Dollfuss in 1934, and subsequently under Hitler in 1938, resulted from the fact that it was the political expression of a resilient, indigenous social movement.

The party's internal political policy is based on achieving its objectives by democratic, evolutionary means. At present this takes the form of active participation in the coalition government. Under strong conservative leadership, the Socialists have gained considerably in prestige, and are now believed to have sufficient support to win a new national election, but not to gain a working majority in the lower house.

At present the party lacks young leaders, as well as representation in the administrative bureaucracy. The Socialists are trying to remedy these shortcomings, and, given sufficient time, will probably do so.

(3) *Communist Party.*

Support. The Communist Party represents chiefly the radical working-class elements, which are concentrated in cities.

Platform. Its internal policy aims at a radical, Soviet-type Socialism; its foreign policy, at an Eastern orientation designed to bring Austria into the Soviet orbit.

History. The strong Socialist hold over the working classes has prevented the Communists from exploiting the political, social, and economic situation after the first and second World Wars. An attempted *putsch* in 1919 was suppressed by the police. During the constitutional period from 1920-1934, the Communists were unable, despite large-scale unemployment and economic hardships, to gain a seat in Parliament or even in the Municipal Council of Vienna. The Communist record of resistance during the absolutist period from 1934-1938 made possible their modest successes in the election of November 1945, where they secured approximately five percent of the popular vote. The Communists were represented in the Government until November 1947, when they withdrew, using the currency conversion law as a pretext. The fact that the public generally regards Communism as the tool of the USSR continues to attach a fatal stigma to the movement.

4. CURRENT ISSUES.

a. *Foreign.*

Soviet hostility to the present Government and Soviet economic pressure continue to be Austria's greatest concern. These factors are responsible for the Allied deadlock in the Austrian treaty discussions (see Section III).

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SECRET*b. Domestic.**(1) Currency Conversion.*

By a law of 30 November 1945, the Austrian currency was converted from reichsmarks to schillings on a one-to-one basis. A currency revision measure passed by Parliament in November 1947 is designed to reduce inflationary pressure on the national economy. In order to obtain Soviet approval of the new law, the Government was forced to make concessions which amounted to giving the USSR control of 20 to 25 percent of the new currency in circulation. Knowledge of the proposed reform produced a lack of confidence in the present currency, and consequently, a temporary business paralysis.

(2) Nationalization Law.

By a law of 26 July 1946, some 70 major enterprises in the key industries of Austria were transferred to public ownership of the state or to joint ownership of "works cooperatives" and the state. This law, which is undoubtedly the most important piece of legislation adopted by the Government, has not yet been implemented, owing to Soviet refusal to recognize its validity in the eastern zone. Soviet authorities claim that it violates Soviet rights to German property under the Potsdam Agreement and have declared that they would not recognize the nationalization law in their zone. Consequently, the Austrian Government has postponed implementation of the law pending final Allied agreement on the rights of foreign property.

(3) Denazification Law.

The final Denazification Law was passed by Parliament on 6 February 1947. It is estimated that it will directly affect approximately 500,000 Austrians who were registered Nazis. Some 50,000 of this number are expected to fall into the category of major offenders; the rest will be classified as less implicated and minor offenders, and will be cleared after a nominal fine. This final version of the Denazification Law was virtually forced upon the Government by the Allied Commission, which considered previous Austrian legislation on the subject as too mild.

(4) Collective Bargaining Law.

On 26 February 1947, Parliament adopted a new collective bargaining law. An extension of similar legislation during the First Republic, it provides for industry-wide collective bargaining and gives a virtual monopoly position to the Chamber of Commerce and the Trade Union Federation as the representatives of management and labor respectively in the bargaining process. A new Works' Councils Law, providing for increased labor participation in industrial enterprises, was passed in March 1947.

(5) Displaced Persons.

There are approximately 600,000 persons in Austria who are not Austrian nationals. Roughly two-thirds of this group are racial Germans. Some of these fled into Austria from the Balkans and the East in advance of the Soviet Army; others were expelled later from the country of their origin. The group includes also about 51,000 South Tyrolians. The racial Germans can be assimilated into the Austrian body politic. On the other hand, the remainder are bona fide refugees and displaced

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persons, including Jews, who for political or economic reasons cannot return to their homes, and are generally not assimilable. The Austrians regard these people as a political, economic, and social liability, and therefore want to get rid of them. Moreover, the continued presence of this group will seriously complicate Austria's relations with the Soviet Satellites. The USSR and its satellites generally regard this group (minus the Jews) as a "security threat" and desire forced repatriation.

5. STABILITY OF GOVERNMENT.

Both major parties, representing approximately 95 percent of the electorate, want to resist absorption into the satellite orbit. Their ties to the West are based on economic considerations as well as on ideological, cultural, and historical grounds. Though most Austrians appreciate the need for trade ties with Eastern Europe as well as with Western Europe, they realize that they must depend primarily on the West for assistance in long-term economic rehabilitation as well as for current relief supplies. Austrians, therefore, approve the Government's participation in the European recovery program (ERP), and would oppose economic ties with the East which involved political concessions.

The USSR is interested in exploiting its economic controls over eastern Austria and its position as an occupying power in order to add Austria to its group of dependent states. Though the USSR is capable of forcing a partition, such a move is unlikely in the near future. Through its economic controls, the USSR: (a) deprives the Austrian economy of many of the industrial goods and most of the petroleum produced in its zone of occupation; (b) consumes indigenous food products; (c) exerts a powerful influence over the economy of the three western zones; and (d) complicates the collection and distribution of products, particularly of foodstuffs. By this process, the USSR is able to bring constant pressure on the Austrian Government.

Assuming that Austria survives quadripartite occupation intact, and that the USSR is not permitted to force the nation into the Soviet sphere, Government stability will be contingent on a continued major party collaboration, which seems probable for at least several years to come. Neither the People's Party nor the Socialist Party can hope to gain a practical working majority in any elections which might be held during that period; furthermore, neither party will wish to assume sole responsibility for the conduct of national affairs.

In the past, both major parties have opposed new elections under the existing conditions of four-power occupation. There are indications, however, that the Socialists may force new elections by fall 1948 in the hope that they might then gain majority control of the Government. In making their decision, Socialist leaders will doubtless consider the danger that: (a) the USSR might actively intervene in influencing the voting in its zone of occupation; and (b) following such elections, the USSR would probably demand the right to block any new cabinet which failed to meet Soviet specifications, thus indefinitely delaying the formation of a new Government and

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possibly resulting in a cabinet less representative of Socialist interests than is the present one.*

Confronted by Soviet pressure as well as by economic hardship, the two major parties have little alternative to a continued cooperation in a coalition government during the next few years. Long-term cooperation between these parties, however, will be more difficult when it is no longer enforced by a common fear. Leaders of both parties profess the need for mutual understanding, and it seems evident that, in this respect at least, they have profited by their common suppression during the period from 1938-1945. The Austrian political party structure remains, however, subject to certain basic weaknesses arising from: (a) basic divergences of aims between the two parties aside from their common opposition to the USSR; (b) traditional ideological differences susceptible to exaggeration through personality conflicts between opposing political cliques; (c) the uncertainties of a precarious political and economic existence; and (d) an undue intrusion of foreign issues in internal affairs as a consequence of dependence on foreign powers.

The conservative People's Party, now a reservoir of most non-Marxist elements, will probably in the long run lose some of its following. This loss would introduce one or possibly more new parties into the political arena to compete with the People's Party for the vote of the Center or Right. The immediate advantage of this political shift would accrue to the Socialist Party, leading ultimately to a condition of governmental instability. In this situation the two major parties would compete for the support of minority groups in an effort to achieve a working majority of votes in the Lower House. In such competition, the conservative People's Party would probably succeed, as it did generally from 1919-1934, in gaining minority party support, particularly that of regional, rightist, or nationalistic elements.

Anschluss sentiment, together with pro-Germanism, which was a source of major difficulty from 1918-1938, is no longer a political factor in Austria. It is, however, possible that with German revival right-wing Pan-German sentiments may develop, though probably not to the extent of the pre-*Anschluss* period, even under optimum conditions such as economic distress in Austria and prosperity in Germany.

* The two major parties have recently reached an agreement to postpone new elections until November 1949, when the regular term of the present parliament expires.

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SECTION II

ECONOMIC SITUATION

1. GENESIS OF THE PRESENT ECONOMIC SYSTEM.

Austria today has a highly unbalanced economy in which are mingled the cumulative effects of the 1918 dissolution of the old Austro-Hungarian Empire, the *Anschluss* with Nazi Germany, and the present effort of the USSR to engulf Austria in the spreading circumference of Soviet economic authority.

Under the old Empire, Austria had prospered as a hub of the transport, the commerce, and the finance of Central Europe. Following World War I and the dissolution of the Empire, this situation was suddenly reversed and grimly simplified in terms of a small nation of few developed natural resources, driven to export approximately one-fourth of the country's total production in order to pay for its vital imports. Though this hardship was mitigated somewhat by a gradual increase in domestic food production and by the influx of relief funds from abroad, the Austrian economy remained chaotic until it was relieved by the League of Nations reconstruction program of 1922. By the 1930's, Austria had become 75 percent self-sufficient in the production of food and had achieved a reorganization of its domestic industry as well as necessary re-orientation of its foreign trade. However, Austria's level of industrial development remained relatively low, and its economy suffered greatly during the world depression of the 1930's.

The *Anschluss* with Germany in 1938 and the subsequent war (though of ultimately disastrous implications) brought temporary economic relief. To obtain Austrian production, the Axis provided raw materials and food; existing industrial capacity was increased by large new enterprises. Austrian oil fields and hydroelectric power were vigorously developed and exploited by the Germans. Germany assumed control of banking, transport, and other major phases of the economy. Though agriculture retrogressed as the war proceeded, in general the Austrian economy was at a high level so long as the level of the Axis war economy was maintained.

The end of World War II left the Austrian economy prostrate. Again, as in 1918, the nation was suddenly cut off from a larger economic sphere into which it had been closely integrated. Industry, oriented toward German rather than domestic or peacetime trade demand, was virtually at a standstill. Agricultural production was almost paralyzed. Allied zonal partition compartmentalized the country. The forests are today in the US and UK zones, the iron deposits in the British, and the hydroelectric capacity in the French. The Soviet Zone includes important manufacturing capacity (though not the pig iron and crude steel production), all oil, and much of the food potential. Although the crippling effect of zonal partition has diminished, within the Soviet Zone the USSR has assumed monopolistic positions in key industries which it has seized as German assets, and has heavily handicapped potential recovery of the

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economy by appropriation of industrial production, removal of industrial facilities, and intrusion of obstructionist policies.

Austria has developed some international trade by means of bilateral agreements with both Western and Eastern European countries. In 1947, however, Austria required in excess of \$200 million of outside assistance to maintain the economy at its reduced level.

Even with outside aid and considerable resolution of the difficulties which beset it because of the occupation, Austria can expect no great improvement in its basic economy for some time to come. It will require years to achieve the former 75 percent self-sufficiency in food. Raw materials must be imported for industry. Replacement parts, machinery, and tools are required to rehabilitate Austrian industry. The question of German external assets in Austria must be solved. All these factors are in turn dependent on the extent to which Austria (a) is successfully incorporated into the economy of Western Europe, or (b) is forced into subordination to the USSR, or (c) is able independently to integrate its economy with Europe as a whole.

2. THE SOVIET ECONOMIC POSITION IN AUSTRIA.

The USSR could probably subjugate the economy of the entire country within six months after quadripartite troops leave unless treaty guarantees reduce present Soviet controls over the Austrian economy. Soviet aims in this regard are revealed by the over-all development of Soviet economic policy in Austria.

After an initial period of mass looting and industrial dismantling which began in the spring of 1945, Moscow apparently became convinced that such a program was of only limited advantage and self-defeating in result. By that time, however, the Zistersdorf oil fields had been stripped of much capacity, while capacities in the electro-technical, machine-building, and many metallurgical industries had been reduced to 1937 levels or lower. Aircraft, armament, automobile, and locomotive construction firms had received similar treatment; one of Austria's two sulphuric acid plants had been dismantled. In a short time eastern Austria would have been almost completely deprived of many of its industries. Soviet leaders found, moreover, that the bulk of the equipment seized had been wrecked during its removal and transport into the USSR.

A positive program was therefore undertaken to establish a long-term Soviet control over Austrian economy and to force the country into the satellite system through economic pressure. A Soviet order of June 1946 declared that, on the basis of the Potsdam Agreement, ownership of German property and assets in eastern Austria were henceforth vested in the Soviet Union. The USSR further decreed that the burden of establishing proof of ownership lay with the Austrian Government, thereby placing under Soviet control many firms whose legality as German assets is exceedingly questionable. Original seizures in June 1946, plus those of the past year, have placed almost 300 firms under Soviet control, and have given the USSR a monopolistic position in oil, heavy electrotechnical equipment, Danube shipping, heavy cables, dyestuffs, and other key industries.

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These industries are operated by the Administration of Soviet Assets in Austria (USIA), the Soviet Oil Administration (SMV), and the Soviet Danube Shipping Company (SDGP). British and US policy allows the Austrians to administer German-owned firms as part of the Austrian economy. Soviet-controlled firms, however, operate outside the Austrian economy as though they were in Soviet, not Austrian, territory. Although in some respects these firms comply with Austrian laws, they enjoy *de facto* immunity from all Austrian governmental controls; they are independent of wage, price distribution, export-import, and tax regulations, and they are not affected by governmental decisions on distribution of power or fuel.

After the Soviet Union had achieved a firm economic foothold by these means in the eastern zone, it began systematically to integrate Soviet-claimed assets into the over-all Austrian economy. Through its monopolies the Soviet Administration forced delivery of raw materials and finished products from the western zones. On the other hand, by supplying western zone firms with materials and orders, USIA is able to influence parts of the Austrian industrial economy outside of its immediate possession. Concurrently with this penetration of the western zones, the Soviet Union has obstructed trade with Western Europe. On the other hand, extensive USIA transactions with Czechoslovakia and Yugoslavia have bartered Austrian-finished products which were critically needed at home against raw materials from the satellite states.

Should the Soviet policy be continued, Austria will cease to have an independent economy. Present Soviet claims are estimated at \$700 million. USIA makes substantial profits, largely through black market operations; these excess profits are used to strengthen the monopolistic power of USIA and to purchase raw and finished materials which are shipped to the USSR with no compensation to Austrian economy. If Austria is to survive as a free and independent country, most of these controls must be broken.

3. DESCRIPTION OF THE PRESENT ECONOMIC SYSTEM.

a. Agriculture.

Austria's food situation is critical, and its agricultural recovery lags behind all other European countries. During prewar years the nation never succeeded in producing more than 75% of its food requirements; World War II seriously disrupted Austrian agriculture, and with the collapse in 1945, the country became almost completely dependent on foreign aid. Indigenous production has risen but is still far below the prewar level; the US is supplying approximately 60% of the Austrian basic ration.

During the period 1933-37, imports of food, feedstuffs, and agricultural raw materials accounted for about 36% of the country's total imports in terms of value. The greatest deficiency was in fats and oils of which 45% were imported, while 30% of the cereal grains and 18% of the meat consumed were imported. The active agricultural population totalled 1,670,000, or one-third of the working population. Farms of 50 acres or less predominated, and cattle and dairy farming formed the foundation of the agricultural economy. Cereal grain cultivation steadily increased in this period; the

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principal crops were rye, oats, and wheat. Potatoes and sugar beets also were grown extensively.

Whereas in prewar years Austrians enjoyed the relatively high consumption of 2900 calories per person per day, postwar food shortages kept the rationed caloric schedule at no higher than 1550 per day for the normal consumer until November 1947. Production of rationed foods in 1946 reached approximately 50% of this reduced demand and amounted to only one-half of prewar production. The greatest shortage continues to be in bread grains and fats. The indigenous production for 1947 was still approximately 50% of 1937 production.

The 1,550 caloric schedule, the lowest in Europe with the exception of Germany, has caused continuing political agitation. To quiet this unrest, in November 1947, the Austrian Government announced a ration increase to 1,700 calories but the success of this plan is dependent upon indigenous production and collection rather than on increased imports.

Austria's agricultural production faces serious difficulties. There are shortages of fertilizer, agricultural machinery, equipment and spare parts, seeds, pesticides, and farm implements. The wartime decline in arable land has not been overcome. The Austrian Government has been given authority over collection and distribution of indigenous production in all zones, but its controls have not as yet been completely effective. This is due in part to Soviet actions in the eastern zone—the richest agricultural land in Austria, normally producing 60% of all agricultural commodities. Sporadic Soviet prohibitions and retardations of food movements out of this zone prevent the success of governmental plans for equitable distribution throughout the whole of Austria. No deliveries have been made to the Austrian economy from the 200 estates confiscated by the Soviet authorities. Finally, the system of collection and distribution has been weakened by the unwillingness of farmers to sell at the official price levels and for currency which cannot at present purchase vitally needed goods and materials. The Government has adopted strict measures to provide for the collection from producers, but has not fully implemented them.

b. Natural Resources.

Oil, timber, hydroelectric power potential, iron ore, and magnesite are major Austrian natural resources. Attractions for tourist trade and Austria's geographical advantages as a transport center are also of economic importance.

Oil, within the past ten years, has become one of Austria's principal economic and strategic resources. Lying within the Soviet Zone, all the producing fields and refineries are located in the Vienna basin, 25 to 35 miles northeast of the capital. There are five fields of sufficient importance to be referred to individually: St. Ulrich-Prinzendorf, Gaiselberg, Kreuzfeld, Zistersdorf, and Neusiedl. Although oil was first discovered in commercial quantities at Zistersdorf, production in this area is now declining and the St. Ulrich-Prinzendorf and Kreuzfeld fields have taken first place. Total reserves of the Vienna basin are estimated at somewhat over 10 million tons. Total refining capacity, also located in the Vienna area, is approximately 925,000 metric tons per year.

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The estimated monthly production of 70,000 metric tons of crude oil under Soviet management is considered an excessive extraction rate that will impair the long-term productivity of the fields. (The wells have an estimated life of only 15-20 years.) Only about 40% of the minimum monthly requirements of the Austrian economy is furnished the Austrian Government for distribution. The bulk is exported mainly to the satellite countries; a small proportion is sold to Switzerland.

Forests cover 37% of Austria. In the prewar period they supplied substantial direct exports as well as raw materials for the important domestic pulp and related industries. Most of the timber is in non-Soviet zones.

Austria's installed hydroelectric capacity in 1945 was 1,250,000 kw., accounting for a little less than 90% of the total electric power generated. An additional capacity of 1,370,000 kw. is under construction as part of a government program which aims to offset the nation's coal deficiency. Actually, the country's water power resources would easily support 10 billion kwh. a year, much of which could be readily used domestically while the balance could be exported. Such a development would require large outlays of capital which are not currently available, but is planned under the European recovery program.

Iron ore deposits (mainly in Styria in the British Zone) are of good quality. Prewar production was adequate for domestic iron-steel requirements as well as for some direct export.

Before the war, Austria was the world's second largest producer of magnesite, a raw material for refractory brick and other ceramics. Production has been relatively low since the end of hostilities; output in 1946 was 95,388 tons as compared with an estimated 480,564 tons in 1944. Deposits are principally in non-Soviet zones. Other industrial minerals of consequence are salt, talc, graphite, and gypsum.

Prior to World War II, Austria produced only about 5% of its hard coal requirements for the steel industry and industrial fuel purposes. Hard coal reserves are estimated at no more than 30 million tons. The Soviet-controlled Gruenbach mine in Lower Austria is practically the only large anthracite mine in Austria; its current production amounts to approximately 13,000 tons per month, but only about 10% of this output is available to Austria. Large imports of hard coal are therefore necessary; the bulk of imports come from the Ruhr, with Polish sources second. Brown coal (mainly in US and British Zones) is produced in substantial quantity but it is a poor substitute for hard coal. Brown coal can be used for certain purposes, but not for coking or for railroad operations. Brown coal reserves are estimated at some 600 million tons.

A lucrative tourist trade accounted for more than 10% of Austria's total foreign exchange receipts in the 1937 balance of payments. The tourist program is being revived despite the present disturbed conditions in Europe. The reduced scale of the present operation is indicated by the fact that it yielded less than \$100,000 in 1947 as against \$37 million in 1937.

Austria's geographical position makes it a major transit area. Formerly an estimated \$15 million of annual revenue was derived from rail and water transit of

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goods and passenger traffic. At present, interzonal traffic on the Danube has virtually ceased as a result of Soviet refusal to allow free navigation of the Danube, and the USSR's claim to the assets of the Austrian Danube Shipping Company.

c. Industry.

Current industrial production is roughly 60% of the prewar level. The production available domestically is reduced by the output siphoned off by the USSR.

Programs for rehabilitation and conversion of many industries are still incomplete. Much of Austria's industrial capacity is in fabricating and finishing processes and production of luxury goods, industries which are geared to relatively high economic levels both abroad and, to a lesser extent, at home. The nation is heavily dependent on foreign raw materials as well as markets; it has the iron ore for the steel industry but no coking coal, and the important textile industry depends on imported raw material. Since the end of the war these basic factors have been critically accentuated by the general dislocation of the European economy, occupation policies and industrial seizures, fuel and power shortages, and lack of skilled labor.

Iron ore and the bulk of pig iron and crude steel capacity are intact in the US and UK Zones, and the related finishing capacity is concentrated in the Soviet Zone. Barter trade provides the raw materials to support textile production at only around 45% of single-shift capacity. Even in the important industry of timber-derived products, which Austria's forests adequately supply and in which finished-product capacity also is largely in non-Soviet Zones, output is being handicapped by a variety of deterrents; these factors similarly affect the capacity in building materials, leather, chemicals, and specialty products.

The present industrial capacity, which is far from being utilized, reflects in many ways German efforts, beginning with the 1938 *Anschluss*, to develop Austria as a war industry hinterland. Existing facilities were expanded; mass production methods were widely introduced; new plants and entirely new industries were established. Capacity of pig iron was quadrupled, ingot and finished steel doubled. Extensive anti-friction-bearing and motor production was developed. New industry included aircraft, a fixation plant capable of providing more nitrogen fertilizer than Austria ever used before, an aluminum plant which is rated as the continent's largest but is dependent on foreign raw materials, and the German-built synthetic fiber plant which Austria's lack of natural fibers makes important.

The non-Soviet zones include, in addition to pig iron and crude steel capacity, all of the hydroelectric power, the new anti-friction-bearing factory which is important as the largest in Central Europe outside Germany, and the nitrogen, synthetic fiber, and aluminum plants. On the other hand, the Soviet zone around Vienna contains the railroad equipment, heavy and light electrical equipment, machine tool, automotive and related industries—all of these expanded and increased in efficiency by the Germans. More than thirty-two chemical concerns in this area also are under Soviet control. This compartmentalization is an all-around loss which reduces Soviet exploitation but which is decidedly detrimental to the Austrian national economy.

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The actual potential of Austrian industry cannot be gauged by pre-*Anschluss* characteristics and currently cannot be assessed with accuracy. On the one hand, the new industrial capabilities will require development abroad of new supplies of raw materials and of markets; on the other hand, Austria can produce important new industrial wares for home consumption and for sale abroad in exchange for the needed raw materials. Obviously, the situation remains in the realm of theory until, as has already been indicated, the future relationship of the USSR to Austrian economy has been established.

d. Finance.

At the time when the Allies entered Austria, rigid German controls had kept official prices and wages at about 1938 levels, although the total monetary circulation had risen over seven-fold by the end of German occupation. The pressure of surplus money found its outlet on the free and black markets. Despite the currency conversion of December 1945 (which included conversion of reichsmarks into Austrian national schillings) and attendant blocking measures on deposits, the volume of notes and other means of payment remained high because of the heavy burden of occupation costs. As the note circulation continued to rise, and because the Austrian wage and price level was considerably below the world level, the Government decided to allow prices and wages to rise piecemeal, with prices kept always a little in advance of wages in order not to discourage business activity. In general, official prices in the summer of 1947 were double the prewar level, while wages had not kept up with the advance; the real cost of living was more than double because most Austrians were forced to supplement official rations by black market purchases at prices ten to fifty times higher than the official rates. Moreover, in view of the differential between official and black market prices, producers were reluctant to sell at authorized rates, and industrial goods were channeled into the black market.

The gradual increase in price and wage levels—accompanied by continuous low levels of production—prompted the Government to prepare a second currency conversion. Political agitation, however, forced the Government to defer conversion while permitting in August 1947 general price and wage increases to approximately 350% of prewar levels, with the proviso that wage and price regulations be strictly enforced. This readjustment in the price-wage structure did not solve the problem of excessive purchasing power, and confidence in the currency was shaken by the rumors of conversion.

A second currency conversion was promulgated in December 1947. In general terms, the reform provided for conversion at the rate of one new Austrian schilling for three of the old, except that individual holdings up to 150 schillings were exchanged on a one-to-one basis. Of the bank deposits dating from before the first currency reform, 60% were wiped out and the remaining 40% converted into 2% Government bonds; bank deposits made since that date and not later than 12 November 1947 remained unimpaired but will be drawn on gradually at the new rate of conversion. Allied bank deposits were exempted from the reform measure, but the Soviet element, with large schilling holdings not on deposit in Austrian banks, extracted favorable monetary

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concessions from the Austrian Government in exchange for approval of the law. The Soviet element received a larger conversion of their holdings and the settlement of a so-called loan involving six hundred million reichsmarks which had been advanced to the Austrian Government in 1945, a short time after the Soviets had themselves confiscated it from Austrian banks. It is estimated that such concessions will give the USSR control of from about one-fifth to one-fourth of the total new currency circulation of about three billion schillings.

The Austrian budget consists of two parts—an ordinary budget for normal national expenditures, and an extraordinary budget covering reconstruction and occupation costs. The Government has kept the budget in a strong position and no inflationary tendencies have been apparent. Although a deficit appeared in 1946 and 1947, the unbalance was largely the result of occupation costs. The ordinary budget for 1948 anticipates total expenditures of 5,091 million schillings (\$509.1 million) with total receipts of 5,092 million schillings (\$509.2 million). An additional expenditure of approximately 600 million schillings (\$60 million) is planned for reconstruction. Comparison of the current ordinary and extraordinary budgets with the 1947 budgets shows an increase of approximately 2,500 million schillings (\$250 million). Although a deficit appears even before occupation costs, the Government hopes to reduce this by extra revenues, savings on expenditures, and payments from cash on hand.

The major expenditures on the ordinary budget are for pensions, grants to provinces, normal reconstruction, and education. Austria has not been required to meet payments for national defense or for the external debt (calculated in 1937 at \$210 million). The largest single receipts are derived from tobacco taxes, which pay approximately one-third of Austria's public revenues. Tax levels are high, and taxes are collected satisfactorily except, of course, in the case of Soviet-seized firms.

The extraordinary budget has been met by foreign aid in the case of reconstruction, but it has been necessary to increase note circulation in order to cover occupation costs. However, occupation costs, which earlier ran higher than 230% of the Federal Budget, have been steadily reduced since the middle of 1946 and now amount to only 12½%. The US has further lightened this burden by renouncing its allocated share and returning that amount in dollars to the Austrian treasury.

The status of the Austrian National Bank and other financial institutions is obscured by unresolved problems carried over from German domination and the extent to which Austria may regain control of assets seized by the USSR. Many assets of banks and insurance companies are in the form of German bonds of doubtful value. Viennese firms which previously served as creditors to the entire Balkan area are deprived of this source of foreign exchange, and many former assets are probably lost to them. Among the assets of the National Bank are a nominal amount of gold, exclusive of \$26 million recently transferred to Austria as a part of an anticipated share of \$35 million from the German "gold pot." In addition, the National Bank has free foreign exchange assets of over 35 million schillings (\$3.5 million), and other miscellaneous assets of approximately 6 million schillings (\$600,000).

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e. International Trade.

As has already been indicated, Austria's foreign trade is presently hindered in a great variety of ways. This circumstance should not obscure the fact that in the prewar period, the Austrian Government was capable of a gradual reduction in its unfavorable balance of trade, which had resulted in a deficit of over 1 billion schillings annually in the 1920's. A skillful policy of trade agreements, foreign exchange control, import quotas, and a general policy of deflation by 1937 reduced the commodities trade deficit to the point where it was more than made up by the invisible items of receipts from tourists, transit trade, and banking and insurance services. The sale abroad of electricity also contributed to the achievement of this favorable balance. Before World War II, nearly a third of Austria's imports consisted of foodstuffs (primarily grain), and live animals; about one-half consisted of semifinished products and raw materials, of which the chief item was coal. About one-third of Austria's exports were raw materials and semifinished products, particularly pulp and timber, and two-thirds were finished products, such as high grade iron and steel, textiles, paper, and engineering products.

Austria's prewar pattern of trade was determined by its position as an area normally deficient in food, a position which caused the nation to export up to 40% of its industrial output. Chief trade partners in 1937 were:

COUNTRY	PERCENT OF IMPORTS	PERCENT OF EXPORTS
Germany	16.0	14.8
Czechoslovakia	11.0	7.2
Hungary	9.0	9.2
Yugoslavia	7.9	5.5
Rumania	6.0	5.6
US	6.0	2.5
Italy	5.5	14.2
Poland	4.6	4.9
UK	4.5	5.4
Switzerland	3.2	5.1

The present meager foreign trade does not yet reflect the expanded industrial capacity, which is not being fully utilized and for which export markets must be developed. In the year 1947 Austria imported approximately \$138 million worth of food and other relief and \$152 million worth of agricultural and industrial goods. Against this, its commercial exports are not expected to total more than \$83 million. The deficit of over \$200 million was largely offset by US and British grants, aid through UNRRA, and US Army relief. US payments for occupation costs, an Export-Import Bank loan, and prisoner-of-war payments covered the remaining deficit. The greatest single contributor has been the US; total US aid from the summer of 1945 to the end of 1947 amounted to approximately \$277 million.

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The present pattern of foreign trade, which cannot be considered conclusive because of the relatively small volume of trade so far developed, differs considerably from that of 1937. While the distribution of trade has not yet crystallized, large relief grants and credits have caused trade to swing toward the West. Since 1946 Switzerland, Czechoslovakia, and Italy have been leading trade partners, followed by other western European countries. Since January 1946 trade agreements have been concluded with Poland, the Netherlands, Switzerland, Hungary, Belgium (and Luxembourg), France, Norway, and Bulgaria. Arrangements now exist for limited trade on a commercial basis between Austria and the combined US-UK Zone in Germany.

Estimated Balance of Payments for 1948¹

(millions of dollars)

<i>Payments</i>	Food	173
	Agriculture	30
	Medicine	4
	Coal	72
	Industry general	128
	Waterways and street railways	1
	Construction machinery	1
	Rehabilitation of tourist trade	2
	Hydroelectro development	15
	Railroad system	7
	Interest on foreign debt	0.3
	Amortization of OMGUS debt	4
	Other current obligations	5
	Tobacco	6
	TOTAL	448.3
<i>Receipts</i>	Commercial exports (including electricity)	125
	Transit revenues	15
	Licenses, etc.	1
	Tourist trade	3
	Occupation costs	20
	Export-Import credits	30
	Commercial credits	38
	Miscellaneous	7
	WAA credits	5
	TOTAL	244

¹ This estimate includes an increase to 1800 calories and a slightly increased level of economic activity.

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Although the immediate outlook is poor, there is a reasonable prospect that under favorable conditions Austria would be able to balance its exports against its imports within a few years. A prerequisite for economic recovery and trade revival is a reasonable solution of the problem of German assets. Given rehabilitation and restored control of industrial capacity, Austria's natural resources and increased industrial potential are sufficient to support foreign trade above the prewar level. However, new markets will have to be developed for Austria's exportable commodities, and a general European economic revival is necessary to hasten any revival of Austria's foreign trade. Pre-*Anschluss* trade was divided among countries of both Eastern and Western Europe. Among the chief partners in 1937, trade with present Soviet satellite states amounted to 38% of imports and 32% of exports; with Western European countries the trade was 35% of imports and 42% of exports. The postwar decline in trade with the Balkan countries has been largely due to economic conditions in this area. Provided the immediate shortages of food and coal are solved, Austrian industry can contribute substantially to the recovery of Europe as a whole.

Regardless of these constructive possibilities, the present grave deficit in balance of payments will continue for at least four years. The projected termination of large reconstructive expenditures and any appreciable upswing in exports cannot be reflected until after that time.

The deficit of \$204 million must be met by additional relief assistance and credits.

4. ECONOMIC OUTLOOK.

Austria maintains its economic life only by transfusion of economic energy from the Western democracies. Western subsidies are maintaining the economy on a subsistence level and are bolstering it against complete Soviet economic domination. The USSR, from an existing major foothold, seeks to bring the remainder of the Austrian economy under Soviet control. The critical short-term situation heavily overshadows the longer-term possibility that, given both a re-establishment of Austrian political and economic autonomy and a general European politico-economic improvement, the country's expanded and more diversified economic potential will be capable of a more sound and stable economy than that of the prewar period. As an optimum, the Austrian economy cannot be expected to stand on its own feet in less than four years.

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SECTION III

FOREIGN AFFAIRS

1. GENESIS OF PRESENT FOREIGN POLICY.

Between the breakdown of the Hapsburg Monarchy in 1918 and the *Anschluss* with Germany in 1938, Austria's foreign policy was generally dictated by two circumstances: (a) its inability to protect its territorial integrity, and (b) its dependence on the Western Powers (France, England, and Italy) for economic support. This was particularly clear during the first years of the Republic, when Austria's desperate economic position made the country dependent on outside help. In order to obtain such assistance, the Government was compelled to adopt foreign and domestic policies imposed on it by the Allies. Austria was, for example, prevented from uniting with Germany, although virtually all groups in the country (except the monarchists and the large industrialists) initially favored such a union. In this way, the Government was forced to adopt the policy of Austrian independence in order to secure credits and relatively favorable peace terms. Moreover, Austria's need for diplomatic support and economic assistance was particularly urgent in view of its cool relations with certain neighboring countries, involving boundary disputes with Czechoslovakia, Yugoslavia, Hungary, and Italy.

The conditions attached to the League of Nations loan in 1922 were popularly regarded as incompatible with Austrian sovereignty. A further loan in 1932, the year following the abortive project of customs union with Germany, imposed even stronger League control over Austria's financial and economic policies.

Meanwhile some right-wing elements (notably the *Heimwehr*) had sought support from Italy. As the reactionary forces within the *Heimwehr* gained strength, the link with Italy became stronger. After Germany swung into the Nazi camp, France and the Little Entente (Czechoslovakia, Yugoslavia, and Rumania) placed fewer blocks in the way of active cooperation of right-wing elements in Austria with Italy, even though parliamentary democracy was sacrificed in the process, on the grounds that this cooperation would block an *Anschluss* with Germany. Therefore, when Italy joined hands with Germany, Austria's independence lost its last champion and Austria fell almost by default to Germany.

2. NATURE OF PRESENT FOREIGN POLICY.

To an even greater extent than during the period which followed the Hapsburg collapse in 1918, Austria today, as an occupied nation, is dependent on foreign powers. This dependence has been increased by the basic conflict between aims of the Western occupation powers (US, UK, and France) and the USSR, to a point where the domestic scene is dominated by the divergent policies and actions of the four powers in occupation.

Caught in this power conflict, the Austrian Government, after the free national elections in November 1945, sought the active support of the Western Allies and, con-

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currently, attempted to remain on friendly terms with the USSR. This western orientation was in part a natural consequence of long historical ties with the West, shared by both major political parties. In addition to ideological considerations, responsible leaders of both major parties realized that only from the West could Austria obtain immediate relief and loans and credits necessary to rehabilitate the nation's economy. Austria's dependence on the West has subsequently increased as: (a) the USSR has pursued a more oppressive economic policy in its zone of occupation; and (b) Austria's territorial integrity has been challenged by a Soviet-supported Yugoslav claim to southern Carinthia.

In the conduct of foreign affairs, the Austrian Government has entered into diplomatic relations with a large number of states, and now has foreign missions in nineteen countries.

3. PRESENT RELATIONS WITH THE USSR.

Soviet policy is designed to force Austria into the satellite orbit through economic and political pressure. Because of the weakness of the Austrian Communist Party, the USSR has sought to force changes in the composition and orientation of the Austrian Government, primarily through prolonged delay on the Austrian treaty and, concurrently, through economic penetration. Soviet demands for "German assets" alone involve a claim which is valued in excess of 700 million dollars. Soviet leaders probably reason that Austria can be made to accept Soviet economic domination through a treaty which would permit the USSR to continue operating these properties outside the jurisdiction of Austrian laws. The USSR has also apparently calculated that, in the absence of a treaty which meets Soviet specifications, continued hunger, unrest, economic stagnation, and general discouragement will tend to create a situation wherein an offer of food, free Danube navigation, and trade opportunities could be exchanged for Austria's accession to the Soviet orbit.

It is possible that certain long-term considerations may lead the USSR to make some concessions in its economic demands on Austria.* The Kremlin has an obvious interest in the withdrawal of the occupation forces of the Western Allies from Austria. Soviet leaders may reason that with complete quadripartite troop withdrawal, they would be able to exert increased pressure on the present Government through internal economic controls and political subversion, supplemented perhaps by threats of border aggression from Yugoslavia and Hungary. Soviet representatives have already blocked proposals to permit the Austrian police to carry adequate arms.

While the USSR would be capable of communizing its zone of occupation by violence or by a forced partition of the country, it has not embarked on such a program, nor are such moves likely in the near future. From the Soviet point of view, a *putsch* or a forced partition would seem undesirable because it would: (a) forfeit western Austria to the US, UK, and France, thereby delaying and perhaps damaging Soviet chances of absorbing all of Austria; (b) as a further evidence of Soviet expansionism, unneces-

* Current Soviet tactics at the London negotiations on the Austrian treaty have followed this pattern, and suggest that the USSR now favors conclusion of a treaty.

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sarily antagonize the US; (c) prolong Western occupation in a strategically important area of Europe; and (d) deprive Soviet-operated industries in eastern Austria of valuable sources of raw materials and semifinished goods from the western zones of Austria.

The Austrian Government realizes that internal recovery will be almost impossible so long as the country is subjected to the uncertainties and burdens of quadripartite occupation. It is largely for this reason that Austrians desire a treaty. During and after the meeting of the Council of Foreign Ministers in Moscow (March - April 1947), a few prominent members of the conservative People's Party felt that tactical concessions should be made to the USSR as a possible means of obtaining Soviet agreement to a treaty. These individuals have subsequently changed their views with the result that the Government, solidly supported by both major parties, is now on record as opposing any treaty which violates Austrian sovereignty or which might prejudice Austria's economic recovery.

4. PRESENT RELATIONS WITH THE WESTERN OCCUPATION POWERS (US, UK, AND FRANCE).

The Western occupation powers are agreed on the basic principle that Austria must be re-established as a democratic and independent state, and that an Austrian treaty should be completed as soon as possible to attain this objective. The US and UK have extended economic aid in pursuance of this policy. The French, however, have been unable to extend similar financial support to Austria. They have, on the contrary, not only exploited their zone of occupation for their own immediate purposes, but have also laid claim to German assets.

Austrian political leaders in both the People's Party and the Socialist Party recognize that, harassed by Soviet pressure tactics, Austria is dependent politically as well as economically on the West. The Government, therefore, has been led to seek the close cooperation and assistance of the Western Powers.

5. SIGNIFICANT RELATIONS WITH OTHER NATIONS.

a. Soviet Satellites.

Except in the case of Yugoslavia, Austria has been able to maintain reasonably satisfactory relations with the Soviet Satellites in the Danube Basin and in Eastern Europe. The Government has entered into trade agreements with all of these Satellites; the volume of trade, however, has been restricted because of economic conditions. US credits have enabled Austria to expand its trade, particularly with Poland, where Austria has obtained badly needed supplies of coal for US dollars. Barring Soviet interference, it is probable that Austria's trade with the Soviet Satellites will continue to increase.

Relations with Yugoslavia are strained because of the undisguised hostility of the Tito Government. Backed by the USSR, the Yugoslavs demand \$150 million in reparations and a substantial cession of territory in southern Carinthia. These demands are opposed by the Western powers and by the Government. It is entirely possible that, following the withdrawal of the occupation powers, the Yugoslavs will foment border disturbances.

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b. Italy.

The status of South Tyrol, an historical source of controversy between Italy and Austria, was settled by agreement between the two powers in September 1946. Austria agreed to renounce its claims to the area, and Italy agreed to grant the area — which has a German-speaking majority — a large degree of administrative and cultural autonomy. This settlement constituted a serious setback to Austrian aspirations. Subsequent negotiations to implement this agreement have not satisfied the German-speaking population, which considers that its rights are not adequately guaranteed. Local agitation continues to be a source of irritation between the two countries.

c. International Organizations.

Austria desires to join the United Nations, primarily as a means of gaining increased international support and assistance. Although the USSR has blocked Austrian admission to the UN itself, the country has joined several other international agencies, including the Universal Postal Union (UPU), the International Telecommunications Union (ITU), the Food and Agriculture Organization (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), and the International Labor Office (ILO).

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SECTION IV MILITARY SITUATION

1. GENESIS OF MILITARY POLICY.

After World War I, Austria's military establishment was regulated by treaty provision which limited Army strength to 30,000. During the 1930's the Austrians adhered to the treaty provisions. In the early 1920's the Federal police, the *gendarmarie*, and the customs service began to take on a more military aspect. During 1935 and 1936, preparatory military training of all male pupils was introduced in higher elementary schools, and in April 1936 general compulsory service was adopted. After the *Anschluss* (March 1938), Austria's army of 58,000 was pressed, as individuals, into the German service.

Austria does not presently possess any armed forces; its 26,000 police are inadequately equipped and armed. The eventual pattern of Austria's national defense policy will be largely conditioned by the terms of the Austrian treaty. The four occupying powers have agreed that the size of the future Austrian Army should be limited to 53,000 and the Air Force to 5,000, with a ceiling of 90 planes. Austrian leaders have not shown any interest in building up a strong military force, and it seems clear that they recognize that in the future, as in the past, Austria's territorial integrity and political independence can be assured only by international guarantees, backed by the active support of one or more major powers.

2. STRENGTH OF FORCES OF OCCUPATION.

a. USSR.

On 1 April 1948, Soviet occupational forces totaled 45,000, most of which are in ground and air combat units. These troops, together with Soviet forces in Hungary, are subordinate to Headquarters, Central Group of Forces. Both the Soviet divisions now located in Austria are mobile, one being mechanized and the other provided with as much motor transportation as a normal US infantry division and, as a consequence of anti-American indoctrination and rigorous combat training, are considered battle-worthy. The Soviet Air Force maintains 450 operational tactical aircraft (March 1948).

b. France.

Occupational forces total 5,000 (1 April 1948). All units are committed to occupation missions. There are no French Air Force units in Austria.

c. Great Britain.

Total occupational forces number 10,000 (1 April 1948). Occupational duties all but preclude military training. There are no operational Royal Air Force units in Austria.

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SECTION V

STRATEGIC CONSIDERATIONS AFFECTING US SECURITY

Austria's relation to US security lies in: (a) its position, second only to Germany, as a critical point of contact in Central Europe between the Western Allies and the USSR; (b) its support of US objectives in Western Europe; (c) its pivotal position in the rail and water transportation network of Central Europe; and (d) its strategic location along the northern border of Italy, flanking Germany and Czechoslovakia, and bordering on the Balkans.

Under present circumstances, Austria constitutes an economic liability to the US, and its military capacity is so small as to be of little importance. It is, however, of great strategic importance to prevent Austria from falling completely under Communist control. A Soviet acquisition of Austria would enable the USSR to consolidate the entire Danube Basin and to increase greatly its pressure on Italy and, to a lesser extent, on Germany and Switzerland. Equally important, a loss of Austria to the USSR would seriously demoralize pro-Western elements throughout Europe because such a development would signify (a) the subjugation of an almost unanimously anti-Communist people, and (b) the repudiation of the Allied commitment to re-establish a free and independent Austria.

The present coalition government, although subject to serious internal strains, represents 95 percent of the population and is united in its determination to resist absorption by the USSR. Meanwhile, the country suffers from a highly unbalanced economy and the efforts of the USSR to absorb Austria in the spreading circumference of Soviet economic authority. At present, Western subsidies are maintaining the economy on a subsistence level and are bolstering it against complete Soviet domination.

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SECTION VI

PROBABLE FUTURE DEVELOPMENTS AFFECTING US SECURITY

No significant change in the status of Austria is in prospect in the near future. A treaty which would terminate quadripartite occupation is impossible of fulfillment so long as the present East-West deadlock continues. The USSR is unwilling to make concessions which would prevent it from gaining eventual control over the country through a combination of political, economic, and military pressures. The US, UK, and France are equally unwilling to conclude a treaty which would expose Austria to such tactics.

While the USSR would be capable of communizing its zone of occupation by violence or by a forced partition of the country, it has not embarked on such a program, nor are such moves likely in the near future. From the Soviet point of view a *putsch* or a forced partition would seem undesirable because it would: (a) forfeit western Austria to the US, UK, and France, thereby delaying and perhaps damaging Soviet chances of absorbing all of Austria; (b) as a further evidence of Soviet expansionism, unnecessarily antagonize the US; (c) prolong Western occupation in a strategically important area of Europe; and (d) deprive Soviet-operated industries in eastern Austria of valuable sources of raw materials and semifinished goods in the western zones of Austria.

It is probable, however, that a prolonged stalemate on the Austrian treaty will cause the USSR to consolidate its position in eastern Austria in order to force changes in the present government.

In the immediate future, Austria's political prospects depend upon its ability to survive quadripartite occupation intact, and upon the conclusion of a treaty which will permit it to resist absorption by the USSR. Austria's long-term political prospects as an independent democratic state depend chiefly on the degree to which the national economy is restored and stabilized and the extent to which Austria can be successfully integrated into the economy of Western Europe. Both major political parties, the People's Party and the Socialist Party, are pro-Western and are strongly entrenched both in their long political tradition and in the social structure of the nation. It is expected that these two parties will continue for several years to cooperate in a coalition government. The long-term stability of such democratic coalition will, however, be subject to serious strains arising from: (a) a basic divergence of aims between the two parties aside from their common opposition to the USSR; and (b) the fact that traditional ideological differences may be unduly intensified owing to personality conflicts between opposing political cliques.

Austria's economic prospects are precarious. At present, Western subsidies are maintaining the economy on a subsistence level and are bolstering it against complete Soviet domination. The critical short-term situation heavily overshadows the longer-term possibility that, given both a re-establishment of Austrian political and economic autonomy and a general European politico-economic improvement, the country's expanded and more diversified economic potential will be capable of a more sound and stable economy than that enjoyed during the prewar period.

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APPENDIX A

TOPOGRAPHY AND CLIMATE

Situated in the heart of south-central Europe, Austria has an area of 32,369 square miles, and is slightly smaller than the state of Maine. The geographical significance of the country lies in the fact that it is a commercial and cultural center for central Europe and the Danube Valley and a communications crossroads: north and south, between Germany-Czechoslovakia and Italy - Trieste, and west and east, between Germany-Western Europe and the Danube Valley and the Balkans. The frontiers of Austria consist of Germany (490 miles), Czechoslovakia (434 miles), Italy (252 miles), Hungary (230 miles), Yugoslavia (195 miles), Switzerland (101 miles), and Lichtenstein (23 miles).

In topography and climate, Austria has great diversity. More than 60% of the country is above 3,000 feet in altitude; much of it is even higher. Topographically there are three main regions running from west to east.

The Alpine Region covers Tyrol, Vorarlberg, western Carinthia, the southern half of Salzburg, and northern Styria. The Eastern Alps, comprising this region, have an average altitude here of six to 12,000 feet. The northern slopes are cut by the valleys of the rivers Inn and Salzach; in northern Styria the ranges are cut by the rivers Enns and Upper Mur. This mountainous interior causes severe climatic conditions in this area, great seasonal extremes of temperature accentuated in the enclosed valleys. The whole region has generally a heavy rainfall, evenly distributed throughout the year.

The Danube Valley, to the north of the Alpine region, includes most of northern Austria (Upper and Lower Austria) and consists for the main part of an undulating plateau rising to the Bohemian plain in the north; the central part is hemmed in on the south by the Alps. This valley, broad in the district of Linz, narrows between Grein and Krems and broadens again eastward toward the Vienna basin. The climate is milder than that of the Alpine Region, and temperatures are moderate. Rainfall is good (25 to 30 inches), with no markedly dry season.

The Eastern Region lies east of the Alpine massif and south of the Danube Valley, covering eastern and southern Styria, the southern part of Lower Austria and the whole of the Burgenland. Here the eastern foothills of the Alpine group gradually merge into the flat fringes of the Hungarian plain. This region contains the most extensively level areas in Austria. It is well watered by the rivers Leitha, Raab, and Mur. Near the Neuseidler See, on the Hungarian border, the land becomes low and marshy. This region has hot summers and cold winters. The low rainfall of the region, with the maximum in the summer, is well compensated by the ample mountain rivers flowing eastward.

Nearly the whole of Austria belongs to the Danube watershed; only Vorarlberg lies in the Rhine country. The Danube enters Austria at Passau, on the Bavarian

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frontier, continues past Linz and Vienna, and exits at Bratislava on the Czechoslovakian border. The length of the Danube through Austrian territory is approximately 220 miles. The chief tributaries are the Inn and Enns rivers. The southeastern slopes of the Alps feed the only other important rivers in Austria, the Drau in Carinthia and the Mur in Styria.

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APPENDIX B

COMMUNICATIONS FACILITIES

Austria normally provides facilities for a considerable amount of transit traffic, thereby earning a significant portion of the foreign exchange necessary to finance its purchases abroad. To restore these services, Austria is counting heavily on unimpeded access to the port of Trieste, free navigation of the Danube, and advantageous railway rates between Austria and the Baltic ports. No real revival of the Austrian transportation system can be effected under the present four-power occupation.

1. WATERWAYS.

The Danube is the only river of commercial importance in Austria, but for all practical purposes river navigation is at a complete standstill, because of disagreement between the USSR and the other Allies on the subject of opening the river either to internal or international traffic. Furthermore, the principal river transport company is unable to operate because of disagreement as to ownership of the ships and installations: the USSR is in possession of the docks and half the fleet, while the other half is held inoperative in the US Zone to prevent possible Soviet seizure.

Normally, Austria depends on Danube traffic more for foreign trade than for purely domestic trade. For approximately 250 days per year, river craft of 1,000 tons can ply upstream to Vienna, loaded to 70% of maximum capacity, and further upstream to Regensburg with 60%. Intermittent movement of traffic is usually possible during the freezing period. Near Nussdorf, a Danube canal branches off through Vienna and rejoins the river below Vienna at Albern. Vienna is the chief Austrian Danube port, but Linz and Korneuburg also have winter harbors, oil depots, shipbuilding yards, railroad connections, and transshipment installations. War damage was particularly heavy around Vienna and at present only the port of Albern is undamaged.

2. ROADS.

Austria never possessed an elaborate highway network. Good roads were comparatively few and had been built primarily for tourist traffic. Although the Germans undertook to improve Austrian roads and bring them up to German standards, the outbreak of war prevented any appreciable improvement. Autobahns crisscrossing Austria had been planned but never got beyond initial construction stages; 300 miles of right-of-way, 70 feet wide, were obtained by Nazi construction firms. Of the section that was actually constructed, about 50% exists in the Soviet zone of occupation. This section, and the land beneath, has been claimed by the USSR as a "German external asset" under the Potsdam Agreement.

The chief arteries of traffic are those that join Vienna with the provinces. By 1937, the total length of Austrian roads was approximately 86,000 kilometers, of which

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54% was suitable for motor traffic. In 1945, at the end of German occupation, roads were considerably damaged by bomb craters and had deteriorated for lack of maintenance. Most bridges on the main routes had been destroyed. An extensive program of patching and restoring bridges was undertaken, and by the middle of 1946 almost all highways were again open to traffic. Roads of lesser importance, however, are still deteriorating because of an over-all labor shortage.

Austrian roads are divided into federal provincial, district, and communal. Federal highways, the most important, are used for international traffic. Roads from east to west lead outside and over the Alps; the continuation of these roads from Vienna to the north and northeast are outside the frontiers of Austria. Work has begun on a new Budapest-Vienna road. Other roads lead south from Vienna through Carinthia and into Italy.

3. RAILROADS.

Austrian railroads have been state owned since 1923 and form the backbone of the transportation system. Prior to the *Anschluss*, the Austrian railway system, which in extent was roughly equivalent to the railroads in the New England states, enjoyed an international reputation for efficiency of operation. It was an important international network linking Italy, Germany, and the Balkans. Because of its importance it was the target of continued air attacks during the war, and at the end of hostilities the system was paralyzed. Large railroad yards were destroyed, including the Linz classification yard, the largest rail terminal installation in southeastern Europe. Considerable recovery has been effected, and sufficient facilities are now available to handle all traffic in sight, provided sufficient fuel and maintenance parts can be obtained.

Total trackage in 1946 was 6,748 kilometers as compared with 6,700 in 1937. Present state-owned and operated trackage is 5,990 kilometers, and the remainder, though privately owned, is state operated. As the great portion of rail lines are mountain lines, difficulties have long been encountered on the heavily graded sections which are operated by steam. For this reason, and in view of Austria's abundant hydro-power and deficiency in coal, electrification of the railroads was undertaken. By 1937, 15 percent of the total length had been electrified, and these sections carried nearly one-fourth of total traffic. Most of the electrified sections are in the western zones. Roughly 1,000 steam locomotives at present are running in Austria but it is not known how many will be left the country by the occupying forces. The USSR, which controls the important Floridsdorf locomotive factory, is shipping out of the country locomotives ordered by the Austrian Government and for which Austrian raw materials were furnished. Early in December 1947 the USSR ordered the Federal Railways to deliver 75 locomotives to the Yugoslavia state railways. The matter has been referred to the Allied Council in spite of the Soviet attitude that it should be considered only by Soviet officials and Austrians. Still another uncertainty for the Austrian rail system is the future of Austrian freight cars which were part of the German freight pool; provisional arrangements had been made by Austria for distinctive marking of these freight cars, but these arrangements have not been accepted by many other countries.

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4. AVIATION.

Aviation and aviation facilities within Austria are controlled by the occupying forces. The nation has neither an air force nor any commercial aviation company. The four-power agreement on the Economic Air Disarmament of Austria is still being implemented by the Air Directorate of the Allied Council, and air installations in all zones are subject to quadripartite inspection for demilitarization. The disposition of surplus airfields is determined by the commander of each zone, and his recommendations for their disposal are submitted to the Allied Council for approval. By the middle of 1947, a total of 21 airfields had been returned to the Austrian economy — primarily for conversion to agricultural purposes. The dissolution of aeronautical organizations within Austria is controlled in each zone by the respective air division of the occupying power.

Civil and military aircraft of the four occupying powers operate fully over their own zones, but over other zones only within established corridors. The USSR clearly desires to restrict air traffic of other occupying powers and has refused any proposal for free transit and technical stops throughout Austria. An agreement, reached in the summer of 1945, assigned the Tulln Airport (northwest of Vienna) to the US and the Schwechat Airport (southeast of Vienna) to the UK and France. Corridors were established for flights to these fields from Linz and Klagenfurt in which corridors the aircraft of the occupying powers were permitted flights without the rendering of prior notice. For air routes from Vienna to Budapest and Prague, other corridors were established and schedules for flights over these routes are forwarded twice a month. Special and urgent missions are cleared with Soviet officials by passing them a copy of the flight plan two hours in advance.

Air transportation within Austria is effected almost entirely by military aircraft, although Pan American Airways operates to Vienna (Tulln Airport). In the late summer of 1947, the USSR sought to supplement the existing agreement with restrictive clauses, which would limit uncleared aircraft flying into Vienna to courier service and transport of supplies. Tactical or commercial aircraft would require specific flight-by-flight clearances from the commander whose zone is being overflown. The Soviets further announced that PAA flights over the Prague-Vienna corridor could not be on a daily basis. Strong tripartite opposition and General Keyes' decision to send through daily PAA flights as "urgent missions" have not as yet resulted in a modification of the Soviet proposal.

A Civil Aviation Department in the Austrian Government was authorized by the Allied Council in August 1947 after long delay by Soviet officials. Since the agreement, however, the formation of the Department has been obstructed by the USSR, which demanded exhausting clearance of personnel and insisted that establishment of airport facilities is premature.

5. COMMUNICATIONS.

At the present time, telephone and telegraph services extend to all parts of Austria, and zonal boundaries of the occupation forces do not interfere with this service. With

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the exceptions of radio activities, international telecommunication services, and facilities in use by the military forces of the occupying powers, the Director General of the Austrian Post and Telegraph Administration has full freedom to decide upon and to apply whatever measures are necessary to post activities and services. The civilian telephone and telegraph system was damaged very little as a result of the war and is adequate to meet the economic requirements of the country. Service has been extended to all countries of the world (except Japan, Spain, and Germany) by means of transit switching of circuits through neighboring countries, but international telephone and telegraph service is limited to non-transactional traffic. The provision to bordering countries of transit circuits across Austria yields the Austrian Government a portion of its revenue.

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APPENDIX C

POPULATION CHARACTERISTICS

Austria has a population of 6,573,000, exclusive of displaced persons and refugees. This figure is 286,000 less than that of 1939. Although the population is still centered in the Vienna area, the population of the city of Vienna is 336,000 less than the 1939 figure of 1,929,976. The number of Austrian prisoners-of-war is uncertain and controversial, but current repatriations may return 50,000 - 55,000 from the Soviet Union and 10,000 from Yugoslavia. Another 75,000 prisoners are believed missing.

In November 1947 there were within Austria an estimated 310,000 displaced persons and refugees. In addition, there were (a) 188,000 Reich Germans and "ethnic" Germans from Czechoslovakia, Hungary, Rumania, and Poland who, under the Potsdam Agreement, are to be transferred to Germany,* (b) 51,000 South Tyrolians who came to Austria following the Hitler-Mussolini pact of 1939, and (c) 43,000 persons of various nationalities, who do not fit into any of the above categories. These displaced persons and refugees consist mainly of former slave laborers, refugees from areas under control of the Soviet Army, persons considered politically undesirable in the countries of their origin, and Jews.

Although the bulk of Austria's inhabitants belong to the Bavarian-Austrian branch of the German people, exclusive national characteristics make the Austrian very different from the German. Centuries of Hapsburg rule over Slavic, Italian, Magyar, Flemish, and Germanic people left an imprint on the Austrian character. There are two small foreign elements living permanently on Austrian soil. In the province of Carinthia there are Slovene colonies in the south and east; in the Burgenland there are groups of Croats and Magyars. The Jewish population at the close of 1946 was estimated at 38,000, including 30,000 displaced persons. In 1947 a considerable number of Jewish refugees moved through Austria and into Italy; this has resulted in a net decrease in the number of Jewish refugees within Austria.

Recognized churches include Catholic, Lutheran, Jewish, and Greek Orthodox. Historically, the force of the Roman Catholic Church has had great effect on Austria and it is still of paramount importance. According to prewar statistics, the population by religious faith is 91% Roman Catholic, 4% Protestant, 2% Jewish, and 3% belonging to other faiths.

Supervision of education is shared by the Federal and provincial governments. Schooling is compulsory for all children between the ages of 6 and 14. Universities offering liberal arts courses are located at Vienna, Innsbruck, and Graz. There are engineering schools at Vienna and Graz; a mining school at Leoben; and a commercial college, an agricultural and forestry school, an art school, a veterinary college, and a

* From this total, an estimated 70,000 persons, primarily of German extraction, have already been absorbed into the Austrian community. These individuals have received Austrian residence permits which in most cases will lead to Austrian citizenship.

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medical college, all in Vienna. At present, as in the past, students from many of the other Central European countries are enrolled in Austrian universities. Although schools are crowded and teachers perform heavy schedules, practically all qualified persons desiring to attend educational institutions are receiving instruction. Teaching staffs are being screened under the denazification laws.

The Austrian worker is vitally interested and active in both trade unionism and politics. The two, intertwined, form a vital part of his life. His newspaper is published by a political party; his social and recreational life is linked with both party and union. He votes in his union along party lines, and uses his party to further his trade union program. The national Federation of Trade Unions, almost 90% Socialist, is divided into sixteen trade unions although the Federation considers itself composed of individuals and not unions. The stronger trade unions arrange their own affairs; the weaker ones lean on the Federation. The Metal Workers' and Miners' Union and the Construction and Woodworkers' Union are the organizations of major strength.

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APPENDIX D

CHRONOLOGY OF IMPORTANT EVENTS

1918

12 November Establishment of a provisional government, followed by a period of confusion and disorders, chiefly caused by attempts of more extreme leftist elements to gain control.

1919

16 February Election of constituent assembly, Social Democrats 72 seats, Christian Socialists 69, German Nationalists 24.

14 March Constitution adopted.

April Demonstrations and Communist efforts to make Austria Soviet state. Social Democrats nearly split but leadership of Otto Bauer prevails, and crises overcome.

10 November Treaty of St. Germain signed between Austria and the Allies.

1920

Severe inflation, suffering among workers, and considerable weakening of Social Democrats as consequence.

1 October Adoption of a new constitution creating a federal state and a two-chamber legislature.

10 October Carinthia plebiscite in favor of Austria.

15 December Austria becomes a member of the League of Nations.

1922

18 September Financial Committee of League recommends: guarantee of Austrian independence; credit of 520 million crowns; financial reform; creation of a special League Committee of Control.

4 October Geneva Protocol signed (recommendations incorporated).

1926

28 October Budget deficit of 135 million schillings met by League of Nations loan.

1927

9 June *Nationalrat* confirms Austria's entry into the League of Nations.

15 July Vienna general strike, burning of Palace of Justice, rioting and bloodshed. Growing antagonisms between Social Democrats and Christian Socialists, and their armed organizations, the *Schutzbund* and the *Heimwehr*, respectively.

1928

31 January The Conference of Ambassadors suspends all military control of Austria.

1929

8 December The revised constitution is adopted.

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1930

- 6 February Treaty of friendship, conciliation, and arbitration between Italy and Austria signed in Rome.
- 19 November Elections, in which Social Democrats get 72 (not a majority) and Christian Socialists 66 seats.

1931

- 22 March Austrian and German Governments declare simultaneously their intention of concluding a Customs' Union (prevented by Allies).
- 11 May Collapse of the Credit-Anstalt, one of the major commercial banks; followed by general financial collapse.

1932

- 13 May Federal Government sends a note to the League, announcing the insolvency of Austria and asking for advice.
- 20 May The new Dollfuss Cabinet, formed on 24 April, has a majority of only one vote by means of a coalition of the Christian-Social Party, the *Heimatblock* of Rintelen, and the *Landbund* of Winkler. The German Nationalists and the Socialists are in opposition.
- 15 July Signature of Lausanne Protocol—credit of 300 million schillings. Austria acknowledges the Geneva Protocol (4 October 1922) and renounces *Anschluss* for the term of the loan (20 years).

1933

- 4 March Suspension by Dollfuss of parliamentary government, followed by Nazi demonstration and riot in Vienna.
- 19 June Austrian Nazi Party dissolved.

1934

- 11 February Social Democratic organizations destroyed by force and leaders captured or forced to flee. Dollfuss comes to terms with the *Heimwehr*, now powerfully supported by Mussolini.
- 17 March Rome Protocol announces economic and political cooperation between Italy, Austria, and Hungary.
- 30 April Dollfuss dictatorship under the new "corporative" constitution.
- 25 July Murder of Dollfuss by Nazis and attempted Nazi coup.
- 30 July Schuschnigg cabinet formed.

1936

- 1 April Federal law establishing general compulsory military service.

1937

Balance of international payments achieved.

1938

- 24 February Schuschnigg, in face of Nazi threat, attempts belatedly to rally support of Social Democrats, and announces plebiscite on Austrian independence. Nazis plunge country into chaos.

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11-14 March Seyss-Inquart becomes Chancellor, German army begins invasion of Austria, and Hitler arrives in Vienna. *Anschluss* accomplished.

1943

5 January London Agreement of nonrecognition of forced property transfers signed by Soviets and other United Nations.

1 November Moscow Agreement on a free and independent Austria.

"The Governments of the United Kingdom, the Soviet Union and the United States of America are agreed that Austria, the first free country to fall a victim to Hitlerite aggression shall be liberated from German domination.

"They regard the annexation imposed on Austria by Germany on March 15, 1938, as null and void. They consider themselves as in no way bound by any changes effected in Austria since that date. They declare that they wish to see reestablished a free and independent Austria and thereby to open the way for the Austrian people themselves, as well as those neighboring states which will be faced with similar problems, to find that political and economic security which is the only basis for lasting peace.

"Austria is reminded, however, that she has a responsibility, which she cannot evade, for participation in the war at the side of Hitlerite Germany, and that in the final settlement, account will inevitably be taken of her own contribution to her liberation."

1945

11 February Yalta Agreement. The US, UK, and USSR agree to assist.

". . . the peoples liberated from the domination of Nazi Germany and the peoples of the former Axis satellite states of Europe to solve by democratic means their pressing political and economic problems.

"The establishment of order in Europe and the rebuilding of national economic life must be achieved by processes which will enable the liberated peoples to destroy the last vestiges of Nazism and Fascism and to create democratic institutions of their own choice . . ."

13 April Vienna falls to the USSR.

29 April USSR selects Dr. Karl Renner as Head of provisional Austrian Government.

13 May Constitution—transitional law passed by provisional government under Soviet sponsorship.

4 July First Control Agreement for Austria signed by European Advisory Commission and agreement on zonal boundaries signed 9 July.

1 August Potsdam Agreement regarding Soviet rights to "appropriate" external German assets.

"Reparation claims of the USSR shall be met by removals from the Zone of Germany occupied by the USSR and from appropriate German external assets.

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"The Governments of the United Kingdom and the United States of America renounce their claims in respect of reparations to shares of German enterprises which are located in the eastern zone of occupation in Germany as well as to German foreign assets in Bulgaria, Finland, Hungary, Rumania, and Eastern Austria."

- 20 October Powers of Austrian provisional Government extended to all of Austria.
- 25 November Austrian national election reviewed but not supervised by occupying powers; seats in Parliament obtained: People's Party 85; Socialist Party 76; Communist Party 4.
- 30 November Allied Council approves Austrian law on currency conversion. This program called for the giving of 900 million schillings to the Soviet element as contrasted with 200 million to each of the other Allies. It represented a compromise in the interests of prompt action, achieved after considerable conflict with the Soviet authorities over matters of technique and of principle.

1946

- 9 January *De jure* recognition of Austrian Government by occupying powers.
- 9 April USSR states that land taken under Potsdam is extraterritorial.
- 31 May Italian-Austrian agreement on South Tyrol.
- 28 June USSR signs second control agreement, thus losing effective veto power except for constitutional measures.
- 6 July USSR publishes Order 17 (predated to June 27) declaring that German assets in the Soviet zone have passed into possession of USSR.
- 26 July USSR arrests two People's Party members of *Nationalrat*. Passage of Nationalization Law.
- 9 August Regarding the Nationalization Law, Kurasov reserves right to take independent action with respect to German property in eastern Austria and to take action necessary to protect Soviet interests.
- 4 October USSR reserves right not to put into effect in Soviet zone laws which become effective in spite of Soviet objections.
- 25 October USSR changes remark of 4 October to read, "if they suppress Soviet interests contrary to . . . the Control Agreement." Soviet actions from July to October, obstructing Austrian legislation and preventing free development of Austrian economic program, show lack of intention of abiding by the Second Control Agreement.

1947

- 8 April Moscow CFM meeting ends without agreement on Austrian treaty; the CFM agrees to establish a treaty commission in Vienna.
- 20 May USSR states that Austrian law applies to German assets except for dividends, profits, and products.

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- 15 August **USSR refuses to permit US inspection and supervision of relief in eastern Austria.**
- 21 August **Soviet statement that German State property in Austria is a German asset. Thus, all State property created as the results of German investment, roads, bridges, forests, etc., would be claimed by the USSR.**

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APPENDIX E
BIOGRAPHICAL DATA

DEUTSCH, Julius

Place of birth: Lackenbach, Burgenland.

Date of birth: 2 February 1884.

Education: Attended the Universities of Vienna, Berlin, Zurich, and Paris, studying jurisprudence, economics, and philosophy.

Occupation: In charge of Socialist Party press and publicity.

Political

Affiliation: Socialist Party.

Religion: Jewish descent.

Remarks: Has had a broad military background during and after World War I. Escaped to Czechoslovakia in 1934.

From 1936-38 he was a General in the Spanish Republican Army and, at the time of Franco's victory in 1939, he fled to France.

From 1941-45, he was in the US working for the Office of War Information.

Since his return to Austria in 1946, he has become director of the Socialist Party publishing firm, Vorwaerts, A.G. He is one of the "big three" in the Party (Deutsch, Schaerf, Helmer), and is reportedly interested in the post of Foreign Minister, should the Socialists come to power. He is pro-US, and opposes the Communists as well as the policies of the USSR.

FIGL, Leopold

Place of birth: Rust in Tullnerfeld, Lower Austria.

Date of birth: 2 October 1902.

Education: Degree of Engineer from the Vienna Agricultural Academy.

Occupation: Chancellor of Austria (and Federal Minister of Foreign Affairs); Executive Chairman of the People's Party.

Political

Affiliation: People's Party.

Religion: Catholic.

Remarks: Active in the Lower Austrian *Bauernbund*. In November 1934 appointed to the Federal Economic Council.

Requested by Schuschnigg in 1938 to organize a plebiscite which was to obviate the *Anschluss*. After the *Anschluss* he was placed in concentration camps from which he was released in 1943.

SECRET

Rearrested in 1944, he was scheduled for trial on charges of treason, but was freed by the Soviet Army in April 1945. Although not cordial with the Socialists, he has been able to cooperate with them in the present coalition Government.

Anti-Communist and opposed to the USSR, he relies heavily on US support internationally and, rather naively, seeks US support for his party internally. He is inclined to steer the People's Party on a middle course between the right-wing industrial elements (Raab) and liberal elements (Krauland, Gruber, Graf). He is not a powerful leader.

GRUBER, Karl

Place of birth: Innsbruck, Tyrol.

Date of birth: 3 May 1909.

Education: Federal Institute for Electrical Engineering, Innsbruck; Doctorate of Laws, University of Vienna.

Occupation: Federal Minister without Portfolio, in charge of Foreign Affairs.

Political

Affiliation: People's Party.

Religion: Catholic.

Remarks: Until 1938, served in Ministry of Social Welfare.

From 1939-44 he worked as an engineer with the AEG (*Allgemeine Elektrizitaets-Gesellschaft*), traveling freely between Vienna and Berlin.

In 1944 he organized an Austrian resistance movement and maintained contact with Allied Forces through Switzerland.

A representative of the liberal wing in the People's Party, he is strongly anti-Communist and anti-Soviet. He is outspoken and aggressive.

His main concern revolves around the conclusion of an Austrian treaty which will preserve Austrian independence and which will terminate present quadripartite occupation. He was at one time eager to make considerable tactical concessions to the USSR in order to obtain Soviet agreement to an Austrian treaty, but has since declared such a course impossible. He has always been a supporter of US policies.

HELMER, Oskar

Place of birth: Wiener Neustadt, Lower Austria.

Date of birth: 16 November 1887.

Education: Studied book-printer's trade; spent journeyman's years traveling in Germany, Holland, Italy, France, and Switzerland.

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SECRET

Occupation: Minister of the Interior; Vice President of Executive Committee of Socialist Party; and Provincial Party leader of Lower Austria.

Political

Affiliation: Socialist Party.

Religion: Catholic.

Remarks: Worked as newspaper editor and subsequently served in the Austrian Army.

Served for 13 years as Deputy Governor of the province of Lower Austria, and as a member of the Executive Committee of the Socialist Party.

Imprisoned for a year (1934-35) and arrested periodically by the Nazis from 1938-45.

As Minister of the Interior, he has considerably reduced Communist influence in the Austrian police, and has successfully resisted strong Soviet pressure to increase Communist representation in the police.

A conservative, he is one of the "big three" in the Socialist Party (Deutsch, Schaerf, Helmer).

RENNER, Karl

Place of birth: Unter-Tannowitz, Moravia.

Date of birth: 14 December 1870.

Education: Doctor of Law, University of Vienna.

Occupation: Federal President of Austria.

Political

Affiliation: Socialist Party.

Religion: Catholic.

Remarks: Regarded as Austria's most distinguished political figure with a national and international reputation.

Following World War I he became Chancellor of Austria and as such, Chairman of the Austrian Delegation to the Peace Conference at St. Germain.

A strong advocate of union with Germany, he remained active in politics until the dissolution of Parliament under Dollfuss in 1933, when he withdrew from political life.

Following the liberation of Austria, Renner formed the Provisional Government; he himself served as Chancellor.

Following the national elections of 25 November 1945 he was elevated to President of the Austrian Republic.

Having renounced the *Anschluss* idea, Renner is working for an independent Austria whose position might become similar to that of Switzerland.

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While friendly to the US and UK, he is not openly unfriendly to the USSR. He is largely inactive in politics.

SCHAERF, Adolf

Place of birth: Nikolsburg, Bohemia.

Date of birth: 20 April 1890.

Education: Doctor of Laws and Political Science, University of Vienna.

Occupation: Vice Chancellor of Austria.

Political

Affiliation: Socialist Party.

Remarks: Served as a first lieutenant in the Austro-Hungarian Army on the Italian front from 1915-1918.

He served as secretary of the Social Democratic Party until 1934, when he was imprisoned by Dollfuss for a short time.

After his release he took up the practice of law again and defended opponents of the Dollfuss-Schuschnigg regimes.

He was imprisoned twice by the Nazis.

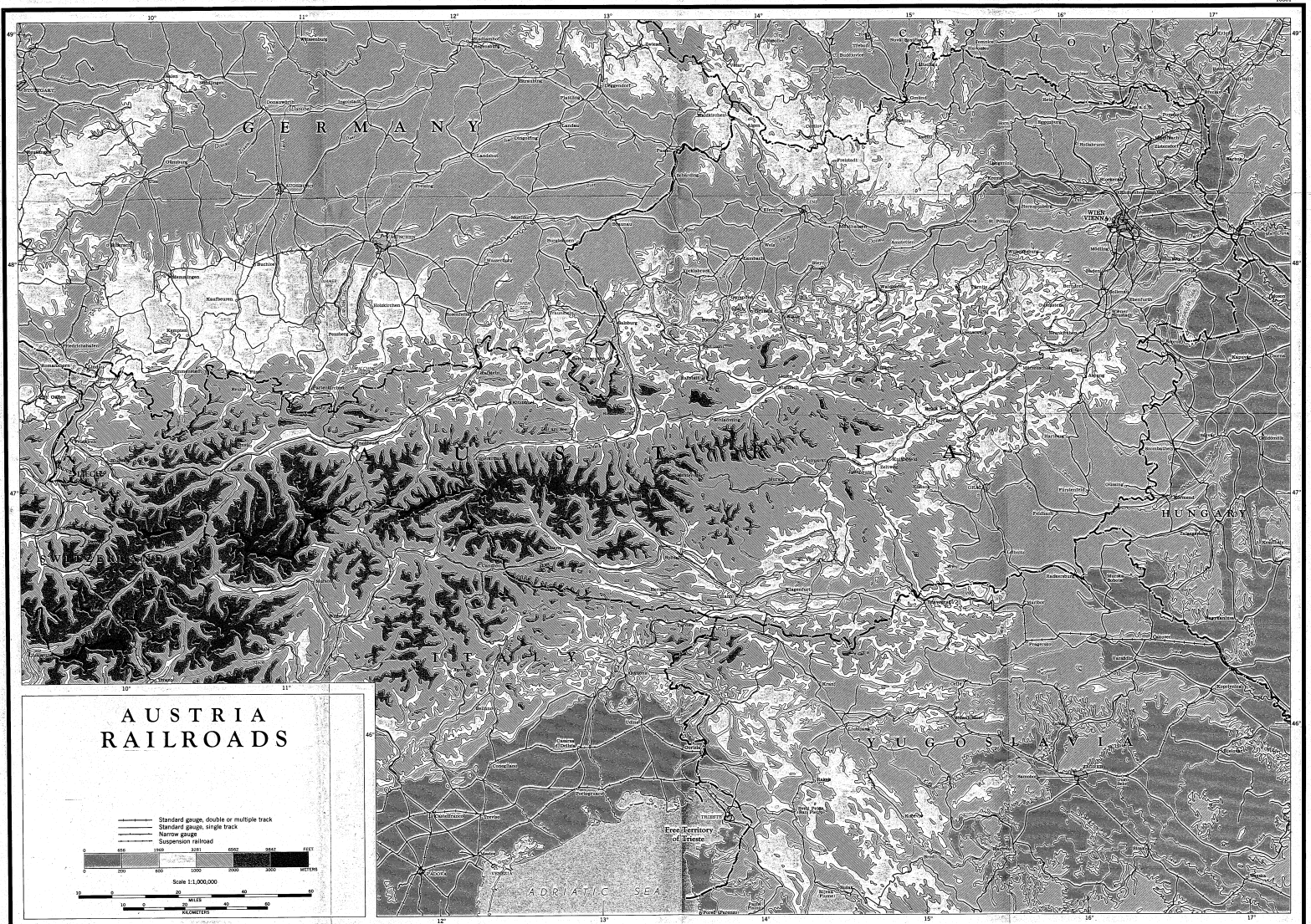
During the war he was an underground liaison man for the Socialists.

Vice Chancellor of Austria and Chairman of the Socialist Party, he is a member of the dominant conservative clique of his party (Deutsch, Schaerf, Helmer), and opposes Communism and the USSR.

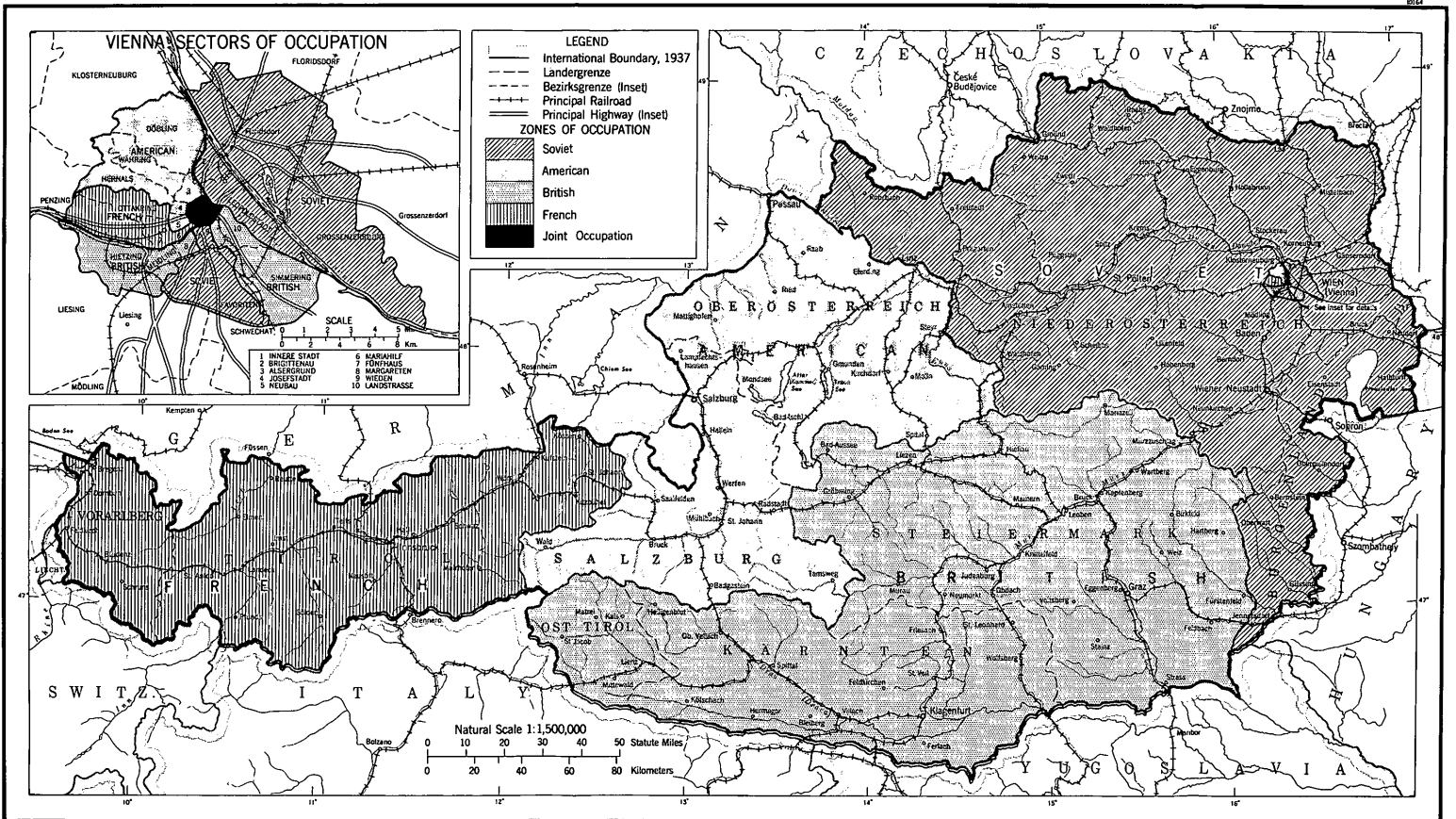
People's Party leaders consider Schaerf as one of the few Socialists consistently loyal to inter-party agreements.

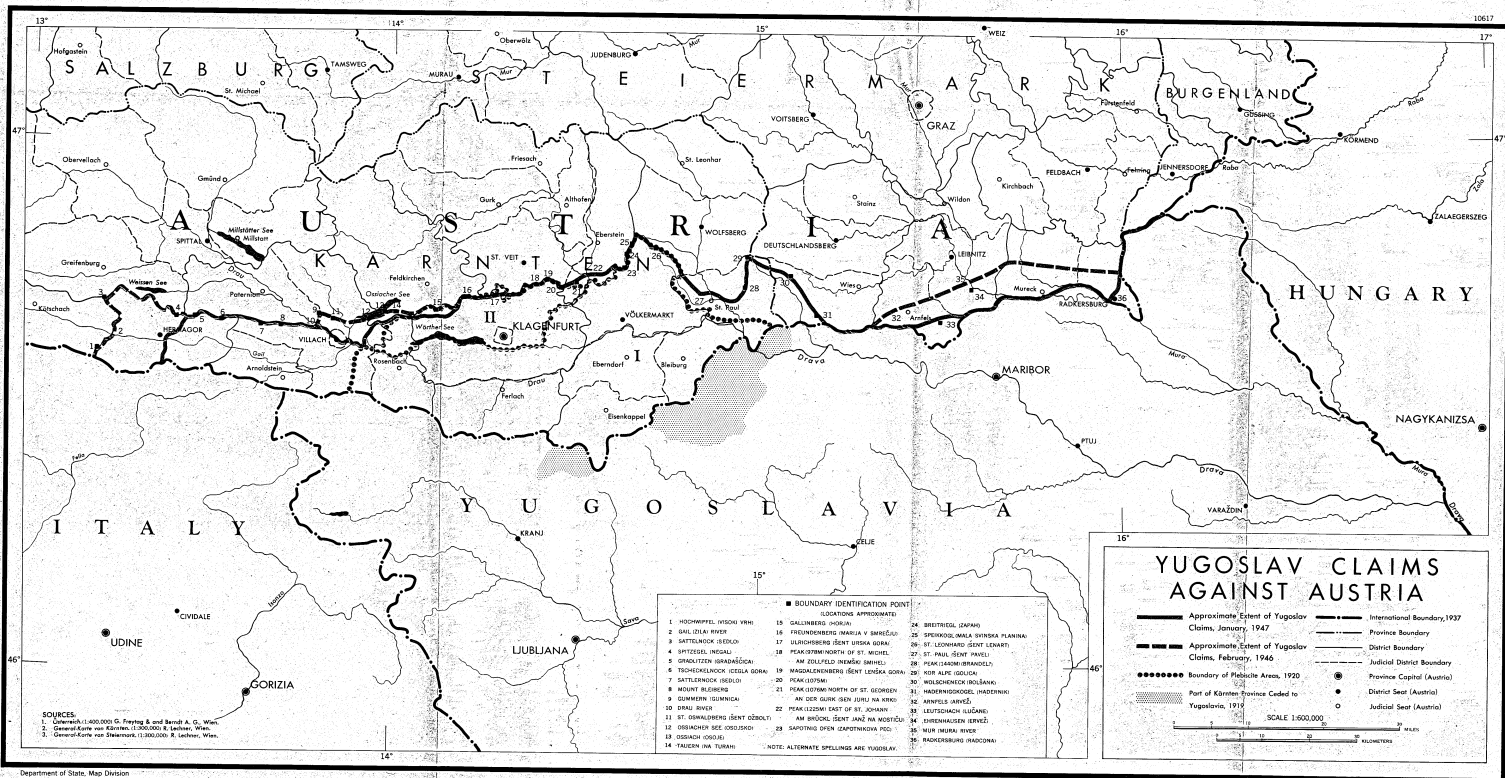
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