

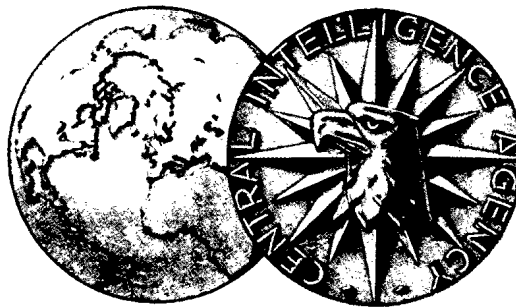
~~SECRET~~

COPY NO.
FOR THE ASSISTANT DIRECTOR
FOR REPORTS AND ESTIMATES

4527

THE CURRENT SITUATION IN FRANCE

Pub.



ORE 85-49

Published 14 November 1949

This document has been approved for release through the DECLASSIFICATION REVIEW PROGRAM of the Central Intelligence Agency.

Date 21 Jul 92

HRP 92-f

Document No. 001
NO CHANGE in class.
 DECLASSIFIED
Class. CHANGED To TS S C
Memo, Apr 77
Auth: EEG. 7/1/83
Date: 23/1/76 By 023

CENTRAL INTELLIGENCE AGENCY

~~SECRET~~

W A R N I N G

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, 50 U.S.C., 31 and 32, as amended. Its transmission or the revelation of its contents in any manner to an unauthorized person is prohibited by law.

~~SECRET~~

DISSEMINATION NOTICE

1. This copy of this publication is for the information and use of the recipient designated on the front cover and of individuals under the jurisdiction of the recipient's office who require the information for the performance of their official duties. Further dissemination elsewhere in the department to other offices which require the information for the performance of official duties may be authorized by the following:

- a. Special Assistant to the Secretary of State for Research and Intelligence, for the Department of State
- b. Director of Intelligence, GS, USA, for the Department of the Army
- c. Chief, Naval Intelligence, for the Department of the Navy
- d. Director of Intelligence, USAF, for the Department of the Air Force
- e. Director of Security and Intelligence, AEC, for the Atomic Energy Commission
- f. Deputy Director for Intelligence, Joint Staff, for the Joint Staff
- g. Assistant Director for Collection and Dissemination, CIA, for any other Department or Agency

2. This copy may be either retained or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Collection and Dissemination, CIA.

DISTRIBUTION:

Office of the President
National Security Council
National Security Resources Board
Department of State
Office of Secretary of Defense
Department of the Army
Department of the Navy
Department of the Air Force
Joint Chiefs of Staff
Atomic Energy Commission
Research and Development Board

~~SECRET~~

~~SECRET~~

THE CURRENT SITUATION IN FRANCE

SUMMARY

Former Premier Henri Queuille (Radical Socialist—right of center), who resigned 5 October as a direct result of labor's wage demands, was succeeded on 14 October by the Socialist Jules Moch and on 20 October by Rene Mayer, a Radical Socialist, both of whom failed to form governments because of political maneuvering intensified by disagreements over wage-price policy. On 23 October the Popular Republican ex-Premier Georges Bidault was designated by President Auriol to succeed Mayer. The next government will be based, as was Queuille's, on a middle-of-the-road (Third Force) coalition. The domestic policies of the Queuille Government tended toward a resolute checking of Communism, relinquishing economic controls, and raising the level of economic activity. While French interests throughout the Union were defended by this government, it also made progress in negotiations for granting some dependent areas—Vietnam, Laos, and Cambodia—certain autonomous rights as Associated States.

Any Third Force Government faces a precarious existence under even the most favorable circumstances. The Queuille Government slowly acquired a measure of stability down to Parliament's adjournment on 31 July, but in August and September the political groups comprising the Third Force became more sharply divided, especially over wage-price policies, and the government faced a growing hostility of economic interests. The more powerful of such interests are the labor federations, the employers' association, and the farmers' alliance. Although the coming weeks are likely to be a period of political crisis, a Third Force coalition will almost certainly be in power. De Gaulle's Rally of the French People (RPF), challenging the present governmental system, has lost influence in

1949 although it remains a political party of considerable strength.

Since the war France has achieved a substantial degree of economic recovery and overall economic progress, in which foreign assistance has been and will continue to be an important factor. The reparation of war damage is far advanced, and investment for reconstruction and modernization is being maintained at a high level. The rate of industrial production in the first six months of 1949 was more than 25 percent above that for 1938, while agricultural production in 1948 nearly equalled that in 1938. The serious postwar inflation was temporarily brought under control in the spring of 1949. Further over-all economic progress will be slowed perceptibly in the current fiscal year, as a result particularly of the 1949 drought, increasing competition for world markets, renewed inflationary dangers, and prospective strikes. Industrial production and the reduction of the current account balance-of-payments deficit with non-dollar areas will probably approach the government's goals, but the outlook is less favorable for improvement in the current account balance of payments with the dollar area, as well as for agricultural production, a sounder budget, and betterment of the standard of living.

Since France abandoned all hope of mediating the East-West conflict, the government and the great majority of the people have relied increasingly upon collective security and especially US military and economic power as the ultimate guarantees of their national security. Thus the French have supported the ERP, Western Union, the North Atlantic Pact, and the Council of Europe. In addition, French leaders have appeared to move slowly toward eventual collaboration with Germany

Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. It contains information available to CIA as of 27 October 1949.

~~SECRET~~

~~SECRET~~

in a federalized Western Europe. Soviet expansionism has been gradually met in a common front with the US and UK. In the next twelve months, despite possible recurrences of friction with these powers, no substantial changes in French policy toward the US are anticipated.

The Armed Forces together with the gendarmerie and police are capable of maintaining security against any internal threat in time of peace. The lack of heavy materiel, and inability to produce it, will make the Armed Forces incapable in the coming year of repelling a strong aggressor. There is no prospect of any material increase in military expenditures in 1950. The army

includes only two armored and three infantry divisions up to strength. All nine existing divisions require modernization of materiel. The French hope eventually to be capable of placing 20-30 divisions in the field in case of war, but sustained major combat operations would be possible for only a month or two. The navy is in better condition than the army or air force, but its combatant ships require considerable modernization. The air force in combat would be rendered ineffective by the obsolescence of equipment and fuel shortages. Communist infiltration, which is negligible in the army and navy, is being gradually overcome in the air force.

~~SECRET~~

~~SECRET~~

THE CURRENT SITUATION IN FRANCE

1. Strategic Importance of France.

France is important to the maintenance of US security because of its geographic location, its pro-Western sympathies, its influence on continental Western European affairs, and particularly its essential role in the ERP. France is a principal factor in the closer integration of Western Europe's economy and in Western Union strategic planning, and, unless overrun, would be of enormous assistance as an ally of the US in the event of a war with the USSR.

a. Military Aspects.

The military importance of France is shown by the fact that its defense establishment is larger than that of any other Western European continental power and is expected to supply the largest share of the ground forces under the Atlantic Pact. Given sufficient military aid, France can build up a compact and mobile army, improve its already good (but small) navy, and increase the tactical capabilities of its air force. France's key geographic location makes its airfields, its Atlantic, Mediterranean, and Channel ports, and its transportation system vital to a successful prosecution of a war in Western Europe. Their control by a power hostile to the US would greatly weaken the security position of the US.

Of almost equally great military importance to the US is the strategic location of the overseas portions of the French Union. In addition to North Africa, the French have Associated States and possessions of varying degrees of importance to US security in other parts of Africa, the West Indies, the Far East, and the Indian Ocean. US access to bases in these areas would be of great value in event of hostilities. On the other hand, if some of these areas were controlled, even temporarily, by an enemy or were not at the disposal of the US, a serious diversion of US force and effort would be required to seize and hold them.

b. Economic Aspects.

Energetic French participation in the European Recovery Program (ERP) is essential to European recovery. The violent efforts of the Communists in 1947 and 1948 to disrupt the French economy through strikes, primarily in order to block or delay ERP, indicate the importance with which the USSR regards the French position in that program.

French assets of military value to the US are: certain raw materials (bauxite, iron ore, and potash from metropolitan France; rubber, tin, iron ore, and tungsten from the overseas territories), outstanding scientists and technicians, abundant skilled labor, and a growing potential for arms production.

c. Importance to USSR.

France is important to the USSR in the political, strategic, and economic spheres. The USSR recognizes that France is a vital link in US strategic planning, and that any weakening of this link would benefit Soviet plans. If France fell under Communist political domination, the political independence of the Low Countries and Italy would be seriously threatened and allied control of western Germany weakened. A Communist victory in France would give tremendous impetus to the spread of Communism in Europe and would provide substantial support for the Soviet Union.

Strategically, Soviet access to metropolitan France, North Africa, and other parts of the French Union would provide the Soviet forces with bases for attacking the US or US-held bases and supply areas in the Atlantic and the Pacific, would make it possible for naval vessels and aircraft to operate against US shipping in the Atlantic and Mediterranean, and would make US counteraction difficult and costly.

Economically, France is not essential to the USSR or its Satellites in either war or peace. However, inasmuch as Soviet over-all and specialized production is far lower than that of the US, control of France's industrial po-

~~SECRET~~

~~SECRET~~

tential would be of greater value to the USSR than to the US. France's supply of trained labor would also be useful.

2. Political Situation.

The French governmental system is republican in form and functions under the Constitution of October 1946, which established a bicameral legislature consisting of the Council of the Republic (the upper house) and the National Assembly. Both have representatives from metropolitan France and the overseas territories. The main legislative power resides in the Assembly of 621 deputies, while the upper house, composed of 319 Senators, has very limited powers. The two houses jointly elect the President of the Republic, who, although he has little executive authority, often mediates differences among the government parties and can exercise some degree of personal influence in the search for a prospective Premier and in shaping his program. The Assembly possesses considerable control at one stage in the establishment of a Cabinet, inasmuch as the Premier-designate must obtain the Assembly's approval of his program before he can name his ministers. Demands for revision of the Constitution have been recurrent but will probably not be effectual except in the event of a prolonged political crisis. Gaullists in particular have pointed to a Constitutional weakness which encourages Cabinet resignations and procrastination on controversial issues; the weakness lies in virtual failure to give the Premier power to dissolve an irresponsible Assembly.

a. Present Government.

Premier Henri Queuille, a Radical Socialist (right of center), resigned on 5 October 1949 as a direct result of labor's wage demands, and was followed first by Jules Moch, a Socialist and previous Minister of the Interior, and then by Rene Mayer, a Radical Socialist prominent in financial circles, who had served in 1948 in the Schuman and Marie Cabinets. The National Assembly confirmed Moch as Premier on 14 October by a vote of 311 in favor—one more than the minimum number required for investiture—and Mayer on 20 October by a supporting vote of 341. Both Moch and Mayer failed to form governments as a

result of political maneuvering intensified by fundamental party disagreement on wage-price policy. On 23 October Georges Bidault, Popular Republican and former Foreign Minister and Premier, was designated by President Auriol to succeed Mayer.

A coalition government is necessary in France because of the multiplicity of political parties, none of which by itself possesses much more than one-fourth of the seats in the Assembly. The next government will probably be based, as was the Queuille regime, on a middle-of-the-road (Third Force) coalition composed of the Socialists, Popular Republicans (MRP), Radical Socialists, and certain lesser elements of the right of center. The relatively long-lived Cabinet of Henri Queuille, established in September 1948, was in its membership and policies slightly more to the Right than most of the postwar governments. Local cantonal elections of March 1949, favorable to the Right, made its right-of-center ministers more aggressive. The Queuille Cabinet was somewhat larger than the average, with 16 Ministers, 13 Secretaries of State, and 3 Under-Secretaries of State.

The Queuille Government's domestic policies, in general, tended toward: (a) a resolute checking of Communism; (b) freer enterprise; and (c) raising the level of economic activity. Queuille's policies with respect to the French Union (the former Empire) emphasized preservation of French control. Plans were slowly elaborated, however, for granting such dependent areas as Vietnam, Laos, and Cambodia certain autonomous rights consistent with the postwar concept of "Associated States" within the Union.

No Third Force Government during the coming months is likely to move substantially further toward freeing the French economy of government controls, except perhaps to unfreeze wages, and to decrease foreign trade quotas. The gains against Communism will be expanded. In Vietnam, French implementation of the 8 March 1949 accords with the pro-French Government of Bao Dai will probably continue to be slow. At the same time, military operations against Communist-led nationalists will be intensified, with emphasis upon defense of the Sino-Vietnamese border.

~~SECRET~~

~~SECRET~~

5

In addition, some further concessions to Vietnamese nationalist aspirations may be forced upon the French Government by international events, or possibly political pressure in Vietnam.

b. Political Parties.

The Communists, although politically isolated because of their open adherence to the Kremlin, have the largest single party in the National Assembly and still possess real political importance because of their influence over labor. The French CP and its affiliates occupy 182 seats in the lower house, having polled 27.5 percent of the votes in the last elections (November 1946). The Communists have concentrated their efforts on nullifying the effects of European economic and defense programs by means of strikes and sabotage. Their active propaganda machine continues to attack the Atlantic Pact and ERP, and advocates "peace" and collaboration with the USSR. Because of basic economic and social conditions, the Communists are again capable of increasing and exploiting labor unrest, and hampering French national defense preparations.

The Popular Republican Movement (MRP) is the second largest party in the Assembly, with 150 seats. Since the November 1946 elections, however, it has lost a substantial portion of its following to de Gaulle. Predominantly Catholic, it is left of center especially in its economic and labor policies.

The Socialists are the third strongest party in the Assembly, with 99 seats. The Socialists champion international socialism but are anti-Stalinist. Although the Socialist Party forms an important part of the present coalition, its strength, traditionally drawn from labor, has declined sharply since 1945. The party's economic policies, which favor labor's demands, nationalization, and a controlled economy, and its demand for negotiations with the Communist-led Viet Minh nationalists in the French-recognized Government of Vietnam, may be expected again to bring the Socialists into serious conflict with Centrist parties this fall.

The right-of-center Radical-Socialists were the leading party in France before the war. Now, in combination with the Democratic and

Socialist Resistance Union, they command only 62 seats in the Assembly. Recent elections for the upper house and for departmental councillors indicate a resurgence in their popularity. The party supports especially small business and favors reduction of governmental controls.

The recent grouping of Independent Republicans with the Peasant Action Party joins together 35 deputies, headed by former Premier Paul Reynaud. This Rightist group advocates free enterprise and represents an attempt to capitalize on France's recent "swing to the Right."

The very conservative Republican Liberty Party has 32 deputies and, at times, tends to favor the policies of de Gaulle.

General de Gaulle's followers were organized as the Rally of the French People (RPF) in April 1947. The RPF claimed that it was a rally for all classes and opinions, not a political party. Its aims are to return de Gaulle to power by legal means, induce Constitutional reform—especially by strengthening the executive—give France a strong government not hampered by "political considerations," and remove the Communist menace. De Gaulle's highly nationalistic foreign policy aims to restore French prestige and leadership on the continent. In the municipal elections of October 1947, the RPF polled approximately 38 percent of the popular vote and thus emerged, for the time being, as the largest political grouping in the country. With its failure to return de Gaulle to power, the RPF has taken on more and more of the characteristics of a political party. The RPF does not appear likely to regain the vigor it possessed in late 1948 unless the Third Force receives serious setbacks, such as a series of Cabinet crises, a major Communist-led wave of strikes, and/or an obvious failure to achieve important foreign policy objectives.

c. Pressure Groups.

Outstanding among influential groups are the farmers' alliance, the employers' association, the Catholic Church, and the leading labor federations. The farmers and employers, together with the non-Communist labor federations, exert a powerful influence on the formation of the government's economic poli-

~~SECRET~~

~~SECRET~~

cies. The Catholic Church, traditionally the dominant religious body in France, lacks control over government policy, the bulk of public opinion, and notably the working class. It is not likely in the coming months either to force a reopening in national politics of the chronic controversy over the control of schools, or to produce, as a result of the Vatican excommunication decree, a perceptible decline in membership of the Communist-dominated General Labor Confederation (CGT).

The CGT is the largest federation of labor unions, with a membership probably now reduced to considerably less than 3,000,000 from the postwar peak of 6,000,000. It is the French CP's most dangerous weapon against French economic and political stability. The bulk of industrial labor still believes that the French CP and the CGT are the most effective defenders of working class interests, despite the exploitation of labor unions for political ends. The current CGT campaign for labor "unity of action" is encountering local and some national success, and is likely to make further progress on the national level in the fall, if the government makes no substantial concessions on the growing demands of all labor for bonuses and wage increases.

The non-Communist, pro-Government, and Socialist-oriented "Force Ouvrière" (FO) came into being when a split occurred within the CGT in December 1947. The membership, previously estimated from 700,000 to 1,200,000, is probably now less than the former figure in view of labor rank-and-file cynicism toward FO leadership. The FO is less aggressively led and has fewer financial resources than the CGT. Its national leadership has opposed the CGT's campaign for unity of action but has not been able to prevent some local unions from cooperating; by late September its leaders were thinking seriously of calling widespread "warning" strikes.

The Confederation of Christian Workers (CFTC), predominantly Catholic, has a relatively stable membership of about 800,000. Some of its local unions have taken advantage of the national leadership's permission to join the CGT in unity of action. While the national leadership of the CFTC is convinced of the practical necessity of cooperating with

the CGT in behalf of specific objectives, it has tried to take precautions against Communist control of the unity of action movement. At the beginning of October, it was still attempting to obtain the participation of all major national labor unions.

d. Stability of the Government.

Fundamental political and economic differences dividing the coalition parties, and their periodic clashes within both the Cabinet and Parliament, threaten any Third Force Government with a precarious existence even under the most favorable circumstances. Improving economic conditions, practical leadership, and growing popular respect enabled the Queuille regime to survive several sharp parliamentary attacks prior to Parliament's adjournment on 31 July. Subsequently it was seriously weakened both by a growing internal cleavage and by sharper attacks from economic groups, as the results of its wage-price policies; but it persevered through September defying all forecasts of its early demise and establishing a new record among postwar governments. Jules Moch's investiture, without any margin of support in the Assembly and apparently without a formula likely to satisfy both Left and Right on the wage-price issue, did not presage an appreciably greater degree of stability for his regime than Queuille's enjoyed during September. The coalition parties and the majority of the population apparently prefer, however, to continue with the Third Force, despite its inevitable compromises and procrastination on current problems, rather than risk introducing Gaullist or Communist influence into the government. Hence, during the coming weeks—increasingly likely to be a period of political crisis—one or more Third Force coalitions will almost certainly be in power. A substantial improvement in over-all political stability must, however, await election of a new Assembly, anticipated for the fall of 1951, and unlikely to be held, as the result of any foreseeable crisis, earlier than 1950.

3. Economic Situation.

Despite chronic political instability, France has achieved a substantial degree of economic recovery and over-all economic progress, in

~~SECRET~~

~~SECRET~~

7

which foreign assistance has been and will continue to be an important factor. This rate of progress probably will decelerate during the fiscal year 1949-50. Substantial improvement over 1948 * in industrial production, investment, and in the balance-of-payments position with non-dollar areas, and increased tourist receipts are important objectives which have fair prospects for attainment in this period. The government's expectations are likely to be disappointed with respect to agricultural production, trade with the US, the budget, and possibly the standard of living.

a. Achievement.

The achievement at mid-1949 was impressive. The repair of war damage was far advanced, with government expenditures for this purpose averaging about 15 percent of total expenditures in 1948 and 1949. The best record was made in production: the rate of industrial production in the first six months of 1949 was 12 percent above 1948 or more than 25 percent above 1938 (program for 1949-50—12 percent increase over 1948); and agricultural production in 1948 nearly equalled 1938, the goal set originally for 1950 (present program for the fiscal year 1949-50—15 percent increase over calendar year 1948). These intense efforts have utilized fully the available labor force, so that unemployment, although increasing slowly, amounts to only about 1 percent of the working population.

Investment for reconstruction and modernization of equipment has been emphasized somewhat at the expense of sound gains in living standards and fiscal stability. Gross investment is now being maintained at a level somewhat above the best prewar year, 1929. Total net investment (beyond maintenance) increased rapidly in 1946 and 1947 before leveling off in 1948. Most of this investment (68 percent in 1948) was provided out of government funds owing to the scarcity of private capital. For the duration of ERP, the domestic monetary resources for the government's investment expenditures will be met in part by ECA-authorized releases (expected to

* The outlook for 1949-50 is generally expressed in relation to 1948 in official French and US documents.

approach 50 percent of total investment expenditures in 1949-50) from the franc counterpart of ECA aid.

One of the most persistent postwar dangers—inflation—was temporarily brought under control in the spring of 1949. The wage-price upward spiral apparently halted following the good harvest and the tightening of credit controls in September 1948, and after the government's victory over the CGT in November in the battle against wage increases. By June, wholesale food prices were down nearly 20 percent below the November 1948 peak. During May and June the cost of living was falling at the rate of about 1 percent per month, and average wage rates were rising only slightly. Also, the franc, after appreciating during the spring, remained fairly firm in May and June. The black market in dollars was reduced to insignificant proportions as the dollar quotation dropped from a previous high of over 550 francs to a low of about 340. Improvement in France's foreign exchange position and the slowly improving fiscal position of the government contributed to the strengthening of the franc.

In July, however, the first signs of renewed inflationary pressures appeared. As a result especially of the serious summer drought, wholesale prices reversed their downward trend, and the wholesale food index (excluding the sensational rise of fresh vegetables prices) climbed about 6 percent in July and again in August. During the latter month, the inflationary danger became real as rising retail food prices reinforced labor's wage demands, as the likelihood of devaluation increased, and as the black market quotation of the dollar rose once more to nearly 400 francs. Abruptly in September devaluation * produced a psychological, detonating effect on this situation. Labor, anticipating a stronger price rise, grew more restive. The rapid deterioration of political stability concentrated public attention on the indications that wage increases and strikes, as well as the steady price rise, would probably make economic

* On 19 September, a single official rate of 350 francs to the dollar was established in place of the previous base rate of 214, the commercial rate of 272, and the official "free" rate of 330.

~~SECRET~~

~~SECRET~~

progress more difficult over the coming months.

b. Outlook.

Over-all economic improvement, however, will probably continue in the current fiscal year though at a perceptibly reduced rate. Industrial production will probably approach the government's goals. Agricultural production will further improve but can be expected to fall far short of the goal of a 15 percent increase over 1948, which was a good harvest year. The farmers are generally dissatisfied with the government's failure to increase materially the price offered for the current wheat crop and may resort to hoarding. Under the best weather conditions, the various crop targets for 1950 would require greater attention to increased acreage plantings—discouraged by the price of wheat—mechanization, use of fertilizers, and consolidation of small farms, at an accelerated pace not provided for in the revised annual program presented to OEEC in June 1949. Meanwhile the prolonged drought is estimated to have seriously impaired several secondary crops (particularly potatoes, sugar beets, and hay), and to have jeopardized the gradual improvement in numbers of livestock. Substantial imports of livestock feed and some wheat imports will therefore be required, with a probable further strain upon the foreign balance of payments (see *d* below).

In other respects, too, economic progress will probably be made, but under considerable difficulties. Gross investment, expected by the government to absorb nearly one-fifth of the gross national product, may have to be curtailed somewhat in order to reduce the pressure for inflationary financing (see *e* below). A gradual reduction in the excess of French imports over exports will probably continue to be made, particularly as a result of devaluation, but will be handicapped by increasingly keen world trade competition and rising French prices. The resurgent inflation, in fact, although it is likely to be brought under control before it results in serious damage, is the most important adverse factor in the immediate economic outlook. The Queuille Government late in August took reme-

dial action against the price rise, with an emergency import program to lower restrictive quotas and in some cases tariffs affecting certain foods and other consumer goods (notably textiles, wines, and farm supplies). These measures were sharply attacked by the many interested economic groups which warned of a resulting dangerous influx of competitive goods, an excessive decline in French prices, and hence a rise in unemployment. Before the program could reduce retail prices decisively, devaluation powerfully reinforced inflationary forces already in existence. By September's end, it appeared probable that labor would soon win a general pay increase, inasmuch as the alternative of government-imposed price reductions was now thoroughly discredited. Hence, the pattern was established for a renewed upward spiral of wages and prices.

c. Special Problems.

While these handicaps are expected to be overcome sufficiently to permit achievement of a sizable increase in the gross national product in 1949-50 over 1948, they with other factors will aggravate three fundamental problems besetting the French economy: (a) reduction of the deficit in the balance of payments on current account; (b) balancing the internal budget without recourse to inflationary financing; and (c) improvement of living standards.

d. Balance of Payments on Current Account.

Equilibrium (at a high level of foreign trade) in the current account balance of payments, whereby France would become self-sustaining—an ERP objective which France has fallen far short of attaining—is essential for completion of the French recovery program. The government aspires to reduce by over one-third in 1949-50 the Union's 1948 current account deficit (see Table "A"), without materially reducing the volume of imports. This plan assumes that: (a) Metropolitan France's exports can be expanded in 1949-50 almost 40 percent over 1948; and (b) although the "invisibles" deficit will increase—mainly because of interests payments on foreign debts—this increase can be held to less than 50 percent over 1948 by some improvement in the ship-

~~SECRET~~

~~SECRET~~

9

TABLE "A"
PERFORMANCE AND GOALS IN BALANCE
OF FOREIGN PAYMENTS
FRENCH UNION, CURRENT ACCOUNT
(in millions of dollars)

Year	Net Balances for Metropolitan France		Net Balances for Overseas Territories	Net Balances for French Union
	Merchandise	Invisibles	Merchandise and Invisibles	
1938	-230	+241	-60	-49
1948	-1428	-102	-208	-1738
1949-50	-701*	-147*	-238*	-1086*
1952-53	-134**	-33**	+167**	0**

* Revised French estimate as of June 1949

** Original French estimate submitted to OEEC in 1948

ping account and by an increase of more than 100 percent over 1948 in the credit balance on tourist expenditures. Although some increase in the overseas territories' net deficit is considered unavoidable in 1949-50, the government hopes that, by a liberal long-term investment program, the exports of the overseas territories can gradually be increased enough both to ease Metropolitan France's raw material imports requirements from non-franc areas and produce finally a favorable net balance in the overseas territories' account with foreign countries. While this progress is being achieved, it is proposed to meet the French Union's total balance-of-payments deficit (including \$1,086 million on current account and \$104 million on capital account) with ECA aid, requested for 1949-50 in the sums of \$880 millions of direct aid and \$310 millions (dollar equivalent) in drawing rights. Late in August, however, the OEEC was considering reductions below these requested sums—as great as 20 percent in direct aid and 28 percent in drawing rights—in anticipation of the US Congress' action on the over-all ECA appropriation for 1949-50. Although Congressional appropriations were higher than anticipated by the OEEC, compensating adjustments in present French plans appear to be necessary, either by reducing the merchandise deficit or perhaps negotiating a special loan or loans.

Performance during 1949 in reducing Metropolitan France's trade deficit with foreign countries on current account has shown great improvement over 1948 except for trade with the dollar area (see Table "B"). In the first seven months of the year, exports to the dollar zone paid for only 13.5 percent of imports. The lag in the development of exports to the dollar area is explained in large part by: (a) high French prices of competitive goods; (b) slow progress of the French in adapting production to selective US demands; and (c) an over-all decline in US imports. The resulting increase in the dollar deficit accentuates the only serious remaining problem in respect to foreign trade.

Metropolitan France has made some progress in controlling the deficit in the "invisibles" account. Official dollar receipts from tourism greatly increased in the first seven months of 1949, especially because the black market's attraction for dollars virtually disappeared.

The overseas territories' current account position (see Table "A") deteriorated steadily in 1948 (\$208 million deficit for that year), and so far in 1949 is apparently continuing to decline at a rate in excess of 15 percent a year. Noteworthy causes of this trend are: the heavy imports of machinery and consumer goods; the drop in world prices of raw materials, which are the principal exports of the territories; and the harassment of Vietnam's economy by war.

The outlook is for appreciable reduction of the Union's current account balance-of-payments deficit in 1949-50, although devaluation renders difficult at this time any forecast of the full extent of this reduction. It is unlikely, however, that the government's June 1949 estimate of a 37 percent reduction below the 1948 deficit will be realized. The improvement will result from greater tourist receipts and a high level of exports (a rate of almost 50 percent over 1948 was reached in the first seven months of 1949). It does not, however, appear that the programmed 12 percent reduction of imports will be actually carried out, and this failure will offset some of the advantage of the exports performance. The critical merchandise trade deficit with the

~~SECRET~~

~~SECRET~~

TABLE "B"
 MERCHANDISE TRADE ACCOUNT
 OF METROPOLE WITH FOREIGN COUNTRIES
 (in millions of dollars)

With	Monthly Average 1948			Monthly Average Jan.-July 1949			July 1949		
	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.
US	45.1	5.2	-39.9	53.9	4.4	-49.5	48.8	4.4	-44.4
Remainder dollar Zone	17.7	3.4	-14.3	15.5	5.0	-10.5	12.5	4.2	- 8.3
Sterling Zone	45.3	16.2	-29.1	61.4	28.5	-32.9	55.4	30.6	-24.8
Other	88.2	66.3	-21.9	77.5	95.2	+17.7	73.0	98.5	+25.5

dollar area will probably not increase over 1948. Finally, the overseas territories deficit will probably increase by more than the expected \$30 millions over 1948.

e. Government Budget.

The second fundamental problem affecting further economic progress—balancing the internal budget by non-inflationary means—is somewhat closer to solution in 1949 than it was in 1948. This year short-term borrowing has so far involved only negligible sums, whereas in 1948 about 12 percent of total funds was raised in this way. Policies contributing to this achievement have been some tax increases, moderate cuts in expenditures, and particularly recourse to the franc counterpart fund, which is serving this year to finance almost 60 percent of the total budgetary deficit. Performance in 1949 has not, however, fulfilled expectations. The government has several times narrowly avoided financial crises which would have forced it to abandon its commitments to Parliament and to ECA not to resort to direct inflationary financing. Unexpected deficiencies in tax receipts and higher deficits in the nationalized industries forced the government to work laboriously with Parliament in May and June on Finance Minister Petsche's Plan for a re-

vision of the budget, and then to turn to ECA late in June and again in early August for extraordinary counterpart releases.

The outlook is for renewed fiscal difficulties in the late fall, which though troublesome to the government are not likely to impede economic progress substantially. The extraordinary counterpart release of 30 billion francs announced on 8 August must be repaid in November. When Parliament reconvenes in October, the government will endeavor to present it with fresh proposals for meeting the 1949 deficit, as well as a tentative 1950 budget. Disagreement within the coalition, however, will be accentuated, and will probably prevent another salutary overhaul of the tax structure and administrative procedures, or prompt and sizable cuts in the cost of the nationalized industries and government contributions to social security. Without such reforms the government's budgetary position will probably not materially improve in 1950. Indeed, it could worsen considerably should gasoline tax receipts continue to fall far short of expectations and/or the financial burden of military operations in Vietnam, intensified in 1949, be increased. On the other hand, total counterpart funds will probably not be substantially less in 1950 than in 1949 as a

~~SECRET~~

~~SECRET~~

11

result of the cut in ECA aid, inasmuch as devaluation has led to a 30 percent increase in the number of francs deposited in the fund for each dollar's worth of ECA goods received. But should ECA resist more strongly later French requests for counterpart releases to cover indirectly current operating expenditures, and should important economies continue to be politically inexpedient, the government may have to resort to some further inflationary short-term borrowing as well as curtail somewhat its sizable investment program.

f. Standard of Living.

Such minor policy retrenchments will probably be found preferable, for reasons of political expediency, to any material reduction of standard-of-living objectives for 1949-50. The continuing social unrest in France, prolonging Communist capabilities for exploiting organized labor for political ends, is a major potential threat to the nation's political stability and economic progress. Hence the modest official goal for the current fiscal year—the same total per capita consumption of goods and services as in 1938 (representing an increase of only 6 percent above the second half of 1948 and only one-fourth of the total increase planned for the remaining three years of the Four-Year Program)—will probably be emphasized at the expense of full export, or fiscal, or investment objectives, or any combination of these. This goal, moreover, will be found more difficult to attain than was anticipated in mid-1949, as a result of the drought, prospective industrial production losses through strikes, and the impact of the price rise on purchasing power.

Even full realization, however, of the desired average per capita consumption of total goods and services in 1949-50 would probably not mean that the continuing inequalities of the postwar period had been materially corrected. In 1948, availabilities of manufactured goods reached levels well above 1938, but foods were 18 percent and housing 10 percent below 1938. Even in 1949-50, there are expected to be somewhat smaller quantities of edible oils, cotton goods, and gasoline

than in 1938, while a few consumer goods, such as coal and shoes, will be in considerably shorter supply. More serious, perhaps, is the uneven distribution of real purchasing power, aggravated by the postwar inflation and persisting as a result of strict wage controls, the black market, and hoarding by farmers. Real progress toward overcoming these various inequalities in the French standard of living will be slow and must depend on pressure for governmental action, resulting from the interplay of interested economic groups.

g. Summary.

The favorable factors responsible for the over-all record of economic progress achieved by the French had by September 1949 considerably outweighed the handicaps. In the coming twelve months further progress will be made, but unfavorable factors—the effects of the drought, resistance to increased productivity, fiscal difficulties, labor unrest, and the precarious political situation—will persist and in some respects be aggravated. In addition, ECA dollars, hitherto the chief means by which France has met its dollar deficit, will be reduced while that deficit rises. In 1949-50, therefore, shifts in economic forces will probably slow up economic progress.

4. Foreign Policy.

After France abandoned all hopes of mediating the East-West conflict, Frenchmen came gradually to base the security of the nation mainly upon US military and economic power. The government and the great majority of the people now rely upon collective security as exemplified in Western Union and the Atlantic Pact, prompt US military aid, and ECA assistance. Foreign Minister Schuman has consistently worked with US representatives for a sound diplomatic and economic partnership based on mutual cooperativeness and respect. In September 1949, this goal was suddenly clouded, though perhaps only temporarily, by a series of international developments. President Truman's announcement of an atomic explosion in the USSR fostered an underlying apprehension of the French nation that US aid might be effective only after France was again crushed. The US-UK bilat-

~~SECRET~~

~~SECRET~~

eral approach to the sterling crisis and to devaluation of the West German mark rendered the French noticeably more critical of their American and British partners. Meanwhile, the French Government has been adjusting by degrees its attitude toward Germany. From the nation's virtually unanimous distrust that was the pivot of its traditional foreign policy, French leaders have appeared to move toward a desire for eventual German collaboration in a federalized Western Europe. French public opinion, however, does not yet by any means reflect a unanimous shift in this direction.

a. East-West Conflict.

The chief immediate challenge to French sovereignty—Soviet expansionism—has been gradually met in a common front with the US and UK. Early in July 1949, Schuman advised US Ambassador Bruce that France would impose formal restrictions on East-West trade, to the same degree as that practiced by the UK, although implementation of this decision was still being impeded in September by disagreements between the Ministry of Foreign Affairs and the Ministry of Industry and Commerce. In the complex German question, France's primary aim has been to prevent a revival of German domination in Europe. This has led the French Government into many sharp disagreements with the US and UK over types of security controls which these three powers should exercise in Germany, for example, through the International Authority for the Ruhr and the Military Security Board. Disagreements were also recurrent in connection with the establishment of a West German Government. Since the painful accommodation of differences in the early 1948 negotiations leading to the London Agreements of that year, however, the French have acceded to compromises, though often reluctantly, and have shown a growing sense of responsibility for strengthening Western Europe against the Soviet threat.

US arguments for freeing European trade and travel have produced extensive French cooperation with the OEEC in easing the tourist's obstacles and moving toward the sup-

pression of import quota restrictions (certain restrictions affecting 15-25 percent of trade with ERP countries are to be suppressed 1 October). The French have, however, noticeably lagged in steps to implement the economic union with Italy, negotiated in 1948. In all major phases of trade relations with foreign countries and the overseas territories, France's growing dollar deficit has been an important factor (see "Economic Situation").

b. The Council of Europe.

Distinguishable from but not inconsistent with this "pro-US" policy, has been the strong French encouragement of the solidarity of Western Europe including Germany. In the negotiation and implementation of the Brussels Treaty of 1948, the French have demonstrated their conviction from experience that to join with their neighbors in a timely declaration and mutual defense measure against possible aggression is the first essential of an adequate foreign policy. Their persistent and successful opposition to British views of the projected Council of Europe highlighted the conviction of important French leaders that the long-range need was for the development of not merely organs for cooperation among the governments, but a union of the peoples of Europe.

c. Probable Developments.

No substantial changes in French foreign policy toward the US are to be anticipated for the next twelve months, despite possible recurrences of friction with the US and UK. Even should the reduction in ECA assistance be accelerated, substantial US military aid be denied, and/or the USSR engage in a prolonged peace offensive, Third Force leaders are not likely to shift their ultimate reliance upon US power or diminish materially their cooperation toward the ultimate objectives of US policy. At the same time, however, the French will probably attempt to exert stronger leadership for economic cooperation among continental Western European countries. The Third Force type of government will undoubtedly continue to act upon a fundamental distrust of Soviet political aims, and hence will be prepared in any further efforts toward a trade agreement with the USSR to sacrifice

~~SECRET~~

~~SECRET~~

13

the conclusion of any treaty in order to protect Western interests.

Should the Third Force coalition be abandoned in the coming year, however, important changes in French foreign policy are likely, although any foreseeable government would continue to be oriented fundamentally toward the West. A government dominated by the non-Communist Left, although it would not wish to weaken France's solidarity with the West against Soviet expansion, would probably curtail materially French defense expenditures. A Rightist government would work to demonstrate greater French independence and prestige within the broad framework of a common policy with the West.

5. Military Situation.

a. Internal and External Security.

The French Armed Forces together with the gendarmerie and the police are capable of maintaining the internal security of the country against any threat which might arise during peacetime from either the Communist paramilitary organization of approximately 60,000 or General de Gaulle's 30,000 followers organized in the "Service d'Ordre." Serious lack of heavy materiel, and inability to produce it or essential replacement parts, would prevent the Armed Forces from repelling a strong aggressor. The morale of the Armed Forces, which number approximately 650,000 men, is generally good.

b. The Army.

The French Army is composed of approximately 470,000 men, organized into nine divisions—two armored, five infantry, one airborne, and one Alpine—75 regiments, and 89 battalions. Of the divisions the two armored and three infantry are up to strength, the remaining four are undermanned and low on equipment; all require modernization of materiel. The heavy demands of the war in Indochina have necessitated the diversion of much materiel and manpower to that theatre, where France maintains an army of 130,000. The remaining troops are deployed as follows: 140,000 in metropolitan France, 54,000 in the German and Austrian Zones of Occupation,

90,000 in French North Africa, and 56,000 elsewhere. Trained manpower is available to form eight more divisions within one year of a general mobilization, but no equipment exists in France for arming them. French planning is directed toward the eventual establishment of an army capable of putting between twenty and thirty divisions in the field in case of war. Under current conditions, paucity of materiel replacements would limit major combat operations to no more than a month or two. Communist infiltration of the army has been systematically reduced under the Chief of Staff, General Revers. The army is loyal to the present government.

c. The Navy.

The French Navy is in better condition for combat than is the army or air force. Its personnel, which are loyal to the government and little troubled by Communist infiltration, numbers approximately 55,000. Its 84 combatant ships, aggregating approximately 260,000 tons, are maintained in fair condition, but require considerable modernization, especially in fire control and electronics equipment, to be fully effective. Chief deficiencies are anti-aircraft and anti-submarine capabilities. Existing reserve personnel is adequate to permit the expansion of the fleet in an emergency. Serious deficiencies in modern aircraft and other equipment strictly limit the effectiveness of the Naval Air arm.

d. The Air Force.

Although the French Air Force possesses slightly fewer than 3,000 planes, of which 453 are in tactical units, fuel shortages and the obsolescence of its aircraft would render it ineffective under combat conditions. The UK however, is furnishing some jet fighters to the French, who hope to produce about 300 Vampires themselves by the end of 1950. With modern planes and equipment, the air force, whose strength is approximately 71,000 could become an effective tactical organization. The air force as a whole is believed to be loyal to the government, but the degree of Communist infiltration is higher than in the two other services. Efforts to lessen the incidence

~~SECRET~~

~~SECRET~~

of Communism were started in January 1948 and are continuing with considerable success.

e. Police and Security Forces.

The gendarmerie (approximately 30,000) and Republican Security Companies (10,000) organized into eight "super-prefectures" for metropolitan France, have, on numerous occasions in 1948 and 1949, demonstrated their ability to maintain order and prevent serious disturbances.

f. Future Developments.

No immediate increase is expected in the capabilities of the Armed Forces to defend France from invasion, even within the framework of the Atlantic Pact. A gradual growth in combat effectiveness will occur only if military aid in the form of heavy materiel becomes available. France is not expected to increase its military expenditures greatly during the next year.

~~SECRET~~

Document No. 001
NO CHANGE in Class.
 DECLASSIFIED
Class. CHANGED TO: TS S C
DDA Memo, 4 Apr 77
Auth: DDA REG 77/1763
Date: 23/1/78 By: 023

~~SECRET~~