

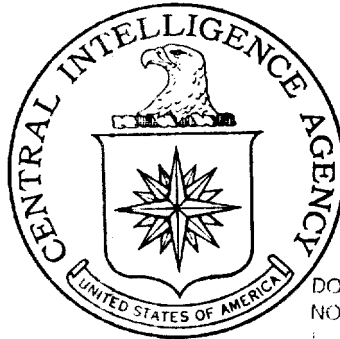
~~SECRET~~

~~CONFIDENTIAL~~

OCI NO. 2863

29 January 1954

CURRENT INTELLIGENCE WEEKLY



DOCUMENT NO. 10
NO CHANGE IN CLASS.
DECLASSIFIED
CLASS. CHANGED TO: TS S CONF
NEXT REVIEW DATE:
AUTHORITY: 72479
DATE: 72479 REVIEWER:

25X1

CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

~~SECRET~~

25X1

~~CONFIDENTIAL~~

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly has been prepared primarily for the internal use of the Central Intelligence Agency. It does not represent a complete coverage of all current situations. Comments and conclusions represent the immediate appraisal of the Office of Current Intelligence.

~~SECRET~~

29 Jan 54

~~CONFIDENTIAL~~

SUMMARY OF CONTENTS

THE SOVIET WORLD Page 3

NEW VIETNAM GOVERNMENT HAS GREATER APPEAL FOR NATIONALISTS Page 5

The new Vietnam government is moderately nationalist and at least approaches the popular concept of independence without unduly alarming the French. It is thus better able to undercut the Viet Minh's pretensions to being the guardian of national ideals.

READJUSTMENTS IN THE EAST GERMAN MILITARY BUILD-UP . . Page 7

East German plans for a rapid military build-up were sharply cut back during 1953 because of deteriorating economic conditions and doubts of the reliability of the armed forces raised by the June riots.

YOSHIDA GOVERNMENT BEGINS AUSTERITY PROGRAM FOR JAPAN . Page 9

To curb Japan's unsound economic boom, the Yoshida government is now taking steps which, if successful, may remove a potential threat to Japan's pro-Western orientation.

COMMUNISTS EXPAND TRAINING OF LATIN AMERICAN LEADERS. . Page 11

The Communists are trying to strengthen their anti-American "united national front" strategy in Latin America by increased training of Communist leaders locally and an expanded program of travel and training within the Orbit.

SPECIAL ARTICLE. A SOVIET SURVEY: II. INTERNAL POLICY AND THE SATELLITES. Page 13

~~CONFIDENTIAL~~

~~SECRET~~

SECRET

THE SOVIET WORLD

The ceremonies on the occasion of the 30th anniversary of Lenin's death provided a marked contrast to those of past years, notably in the mild tone employed toward capitalist countries, including the United States, in the lack of specific charges of Western aggression, and in the almost complete neglect of Stalin.

The main address was delivered by P. N. Pospelov, all-union party secretary and theoretician, who devoted a comparatively brief portion of his speech to international affairs. The themes stressed the possibilities of peaceful coexistence with the United States, of establishing more friendly relations with England and France, and of expanding trade relations with capitalist countries in general. If, as appears likely, the present regime is groping its way toward a theoretical position more nearly consistent with current policy, Pospelov's remarks can be read as an ideological progress report.

Pospelov cited various pronouncements by Lenin as evidence that current policy fits an orthodox mold. For example, the present regime's ostensible solicitude for the material welfare of the population was said to have been shared by Lenin. Current agricultural policy is justified by reference to Lenin's emphasis on the need for strong ties between worker and peasant. By increasing the economic interest of collective farm peasants, Pospelov stated, "the party and government are basing themselves . . . on Lenin's directions." A similar technique was used to buttress the current propaganda line which exalts the party central committee and collective leadership while execrating the "cult of the individual."

On the subject of East-West trade, Pospelov slanted his discussion to imply that current Soviet trading practice would also meet with Lenin's approval. He cited an obscure 1920 statement in which Lenin had asserted that the USSR was prepared to pay in gold and raw materials for "goods useful in transportation and production."

In contrast to last year's anniversary speech, Stalin was relegated to a distinctly secondary place. This is seen most clearly in allusions to Lenin's formulation of Soviet nationalities policy and the theory of "socialism in one country," hitherto credited to Stalin.

SECRET

SECRET

In the East European Satellites, efforts of the Communist regimes to obtain the support and participation of the party rank and file and of the general populace in their new programs were reflected in the current high level of political activity. The spate of party and governmental meetings and elections recently held and to be held pointed up the quickened tempo of major decisions to implement the new programs and to deal with the serious economic and political difficulties being experienced under them.

In late December and January the Polish, East German, Hungarian, and Czech party central committees met in extraordinary sessions to consider agricultural difficulties and to propose legislation which was subsequently passed by unusual national assembly meetings. The Czech party central committee met again on 11 January to consider the critical problem of lagging coal production, and the National Assembly was called into special session on 14 January to deal with this problem. Communist party congresses, scheduled in all the Satellites except Albania during the first half of this year, can be expected to consider the achievements of the new policy.

As part of a program to emphasize mass participation in the activity of the regimes, government elections were held in Bulgaria and Rumania on 20 December, while Czech government elections and Hungarian Workers Party elections are scheduled for the near future. At the same time, all the Satellite governments with the possible exception of Poland are attempting to reduce internal tensions by moderating their attacks on such dissident elements as the kulaks, bourgeoisie, and Social Democrats. Czech and Hungarian leaders in particular have indicated a modification of "class warfare" by emphasizing the need to utilize formerly proscribed groups, particularly the intelligentsia and kulaks.

SECRET

SECRET

NEW VIETNAM GOVERNMENT HAS GREATER APPEAL
FOR NATIONALISTS

The Vietnamese cabinet sworn in on 16 January is a marked improvement over its predecessors, in terms of professional competence and in geographic representation. Its moderately nationalist orientation, while disappointing to Vietnamese of extreme views, is realistic in that it at least approaches the popular concept of independence without unduly alarming the French.

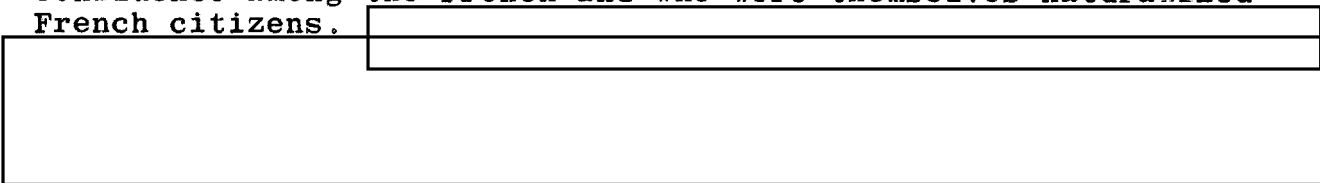
The new government, therefore, should in general hold more appeal for the Vietnamese people than its predecessors and thus appears better able to undercut Viet Minh pretensions of being the guardian of national ideals. Buu Loc, who is Bao Dai's cousin and long-time associate, can be expected to work smoothly with the chief of state rather than engage in a constant struggle for power as previous premiers have done.

The new government retains two of the strongest personalities of the outgoing cabinet, notably Phan Huy Quat as defense minister and Le Thang as information chief. Both are members of Vietnam's largest political party, the Tonkin-based Dai Viet. New figures include Nguyen Quoc Dinh as foreign minister and Nguyen Trung Vinh as vice premier in charge of agrarian reforms. The former, who has served as a professor of international law at the universities of Paris and Toulouse, is young, strongly nationalistic, and believed to favor social reform and vigorous pursuit of the war. The latter has been described as Vietnam's foremost economist.

A popular departure from the pattern of previous cabinets is that a large number of the portfolios are now held by men from Tonkin, the traditional seat of nationalism. In the past, the premiership had invariably been awarded to a Cochinchinese, and most cabinet posts had gone to men identified with native and French economic and bureaucratic interests.

Bao Dai in the past had appointed premiers who enjoyed wide confidence among the French and who were themselves naturalized French citizens.

25X6



The announced program of the new government consists mostly of the usual generalizations on realizing national and social aims. Strong emphasis is apparently to be placed, however, on the "nationalization" of the Vietnamese army through further French transfers of territorial and command functions, by

25X6

SECRET

~~SECRET~~

discarding certain European concepts of warfare, and by wider use of the Vietnamese rather than the French language. Regarding French Union relationships, the new government, with Commissioner General Dejean's endorsement, has insisted politely but firmly that the French Union shall be a partnership of equals. Buu Loc has assured the French that their economic and cultural interests in Vietnam will not be threatened.

Although the new government marks a net improvement, certain liabilities are evident. Buu Loc is primarily a diplomat, not a leader with a strong personal following. His government for the most part is one of technicians, rather than of representatives of political parties, and there is little prospect that responsible parliamentary government will be introduced in the near future. Several religious groups with strong political influence are not represented in the cabinet. Although the Catholics, through their native clergy, will probably support the government, the warlord tendencies of the Hoa Hao and Cao Dai sects in Cochinchina may constitute a major nuisance.

The significance of the Buu Loc government lies in Bao Dai's strategy for gaining independence. Faced with frequent reminders from the French that their continued prosecution of the war would be impossible unless nationalist demands were moderated, Bao Dai has avoided demanding sweeping concessions while he lacks the strength to back them up. Instead he has begun the formation of Vietnam's political institutions with the apparent intention of assuming a more active leadership as these institutions increase in strength. The appointment of Buu Loc, who is neither pro-French nor violently anti-French, probably marks the end of the period during which Bao Dai took the side of pro-French politicians against those called ultranationalist by the French.

Bao Dai's current strategy is to adopt a somewhat stiffer policy toward France, while holding in reserve the threat of a government so nationalistic as to force the French to reconsider their policy. The present government is not calculated to have the widest possible support of Vietnamese nationalists, but it does have greater drawing power than its predecessors. Such a moderately nationalist government may ultimately prove a realistic compromise between the often conflicting objectives of appeasing the French and undercutting the Viet Minh.

SECRET

~~SECRET~~

READJUSTMENTS IN THE EAST GERMAN MILITARY BUILD-UP

East German plans for a rapid military build-up were sharply cut back during 1953 because of deteriorating economic conditions and doubts of the reliability of the armed forces raised by the June riots. The first indication of a modification in plans was noted in the early months of 1953, when growing financial difficulties led to a reduction in allocations for military construction. The new economic plan of early June apparently provided for a reduction in planned military expenditures in order to improve living conditions.

At an early stage of the riots, Soviet authorities became convinced that the East German army, or KVP, would be incapable of effective action even as an internal security force. Both the extent of the uprisings and the poor performance of the KVP apparently contributed to the decision that plans for military expansion which had already been modified on economic grounds were now to be further curtailed for political reasons.

It is not possible, on the basis of present evidence, to determine the weight of each factor in bringing the armed forces to their present status. It seems clear, however, that actions taken in late June and early July -- including the suspension of recruiting, the purging of "unreliables" from the armed forces, and the suspension of flying activity in the VPL, the air arm -- were a direct result of the political unreliability evidenced during the civil disturbances.

In the two months during which these measures were in effect, revised plans for the military build-up were evolved. It was not until the last months of 1953, however, that the extent of the changes in the organization and activities of the various services became manifest.

At the end of 1953 tactical units of the KVP comprised a Corps North at Pasewalk and a Corps South at Leipzig, each with three subordinate divisions, and an independent mechanized division at Potsdam. Troop strength was about 100,000, the same as at the beginning of the year. Current strength of the KVP is thus approximately fifty percent of the goal planned in late 1952, when Ministry of Interior reports increasing allocations of food and money indicated plans to double its size by the end of 1953. At the same time there were indications that the KVP would reach a strength of four corps and twelve divisions during this period.

SECRET

~~SECRET~~

The principal effect of the revised plans on the VPL has been the cessation of training in jet aircraft. Prior to the suspension of all flying following the June riots, it appeared that the VPL was to be developed into an effective Satellite air force, and approximately 100 MIG-15's had been delivered to East German airfields for eventual use by VPL units. The continued restriction of flying, which was resumed in early September, to a small number of piston-type aircraft shows the extent to which earlier plans for the VPL have been altered.

The changes in military planning appear to have had little effect on the East German navy, or VPS. Its primary function, as in the past, appears to be the maintenance of security in coastal waters. Although organizationally a miniature of the Soviet navy, it is equipped only with patrol, minesweeper, and service vessels. Little is known of plans for the VPS, but any further build-up will probably emphasize coastal defense activities ashore.

Although the planned expansion of the armed forces has been significantly curtailed, East German authorities are continuing serious efforts to improve the combat effectiveness of the KVP. The organization of additional tactical units, the receipt of new Soviet equipment, and the launching of an intensive training program reflect a growing capability.

~~SECRET~~

~~SECRET~~

YOSHIDA GOVERNMENT BEGINS AUSTERITY PROGRAM FOR JAPAN

The long-needed first steps toward curbing Japan's un-sound economic boom are now being taken by the Yoshida government, primarily through its proposed "austerity budget" for 1954-55. If a depression is avoided and Yoshida's program results in lower prices, the present severe inflation will be alleviated and a potential threat to Japan's pro-Western orientation removed.

Japanese wholesale and retail prices, fairly stable in 1952, moved upward again in 1953 and recently surpassed the peaks reached in the fall of 1951. Fed by rising wages, deficit financing, expanding credit, and special dollar receipts, the inflationary change was highlighted by consumer prices, which increased over 12 percent in 1953. The inflation was characterized as a "consumption boom" because of such developments as the 25-percent increase in 1953 department store sales over 1952 and decreased savings between April and September of 1953, even though incomes were up. Japanese wholesale prices increased in 1953 at about one half the rate of retail prices, but also topped their previous peak.

These developments were important in the further deterioration of Japan's foreign trade position in 1953, which saw merchandise imports almost double exports and the accumulation of a record \$1.1 billion trade deficit. The yen was quoted on international markets at a discount of around 20 percent under its official value, foreign exchange reserves decreased by almost 20 percent, and there was an increasing resort to subsidies, dual price systems, and cartels in an effort to promote exports. A general price rise is in prospect for 1954 because of scheduled increases in rice prices, rail and utility charges, and wages.

Firm government action to reverse this trend, however, is apparently in the offing. The major present effort is the drafting of an "austerity budget" for 1954-55 which aims at a reduction of price levels by from five to ten percent by retrenching on most government expenditures. In addition, the Bank of Japan has tightened restrictions on lending, and the government has adopted a policy of limiting the import of certain consumer goods. Plans are also under study to restrict private credit and to change the tax structure to penalize consumption and encourage saving.

~~SECRET~~

SECRET

Premier Yoshida is chiefly responsible for this austerity drive. The recent return of former dissidents to the Liberal Party has strengthened his hand, and he is also supported by the press and by financial circles. While the necessity for such action is generally recognized, intense opposition to specific remedies is being encountered. Yoshida, however, is determined and recently replaced the ministers of international trade and industry and of welfare, both active in opposing budget cuts, with men believed more amenable to his program.

If the current boom is followed by a severe depression, Japan may feel that its policy of economic cooperation with the West has failed and may turn toward the Communist bloc as an alternative. But if the planned austerity program is successful in lowering prices without a depression, in making exports more competitive, and in putting Japan on a more self-sustaining basis, it will tend to solidify the country's pro-Western orientation.

SECRET

COMMUNISTS EXPAND TRAINING OF LATIN AMERICAN LEADERS

Growing attention to the indoctrination of Latin American Communist leaders is reflected in the rising attendance of Latin Americans at international front meetings in Europe, in increased travel and study within the Soviet Orbit, and in intensified training locally within Latin America. This effort is probably part of long-range plans to broaden and strengthen popular movements directed against the United States.

Since last July, about 900 Latin Americans representing all 20 republics and several European colonies have traveled behind the iron curtain. Over 140 visited the Soviet Union. The travelers included Communist front officials, party leaders, delegates to front meetings, students, and a few prominent non-Communists invited for propaganda purposes. Some are taking training courses to last up to two years.

Most top Communist leaders in Latin America have received training or indoctrination in the USSR. For example, the party chief in Guatemala, Jose Manuel Fortuny, who first visited the Orbit in 1949, is only one of several Guatemalan Communist leaders who have recently returned from Moscow. Dionisio Encina, secretary general of the Mexican Communist Party, who visited Moscow in 1952, has just returned from a course in political orientation at the Lenin Institute.

Typical of the lesser leaders undergoing this training is Jorge Arellano, an Ecuadoran reportedly receiving two years of schooling in Eastern Europe as part of his "grooming" for a vice presidency in the International Students Union. Pablo Ovidio Mesa, a Cuban negro who has been directing Communist activities among sugar workers in Camaguey, is scheduled to attend the Lenin Institute. Other labor leaders reportedly receiving Communist training in Europe last year included nine Guatemalans, a Panamanian, and possibly three Bolivians.

On their return to Latin America, these leaders join in the effort to expand Communist indoctrination on a local level. Thus, in Mexico, WFTU vice president Lombardo Toledano is reported planning to use two unionists who studied in Budapest last summer to help organize a new labor front. In Guatemala, the Jacobo Sanchez school, reactivated last February as an "internal party school for cadres," recently announced that 31 "middle level" officials and 17 cell leaders had completed a course.

~~SECRET~~

In Brazil, where the Communist party has been building up a school system throughout the country since 1950, the party has stepped up its political indoctrination in Sao Paulo and recently established there a primary course for Communist sympathizers and an advanced course for party members. In Chile, preparations were under way last September for a series of intensive courses and a self-study program.

Delegates to the international front meetings have also been active in spreading pro-Soviet and anti-US propaganda. For example, Brazilian delegates returning from the World Medical Congress in Vienna last May gave a series of lectures in small towns. Guatemalan delegates to the World Youth Congress in Bucharest last summer are now helping plan a Central American Youth Congress for mid-1954.

The present emphasis on travel and training is directed in part toward gaining the sympathy of liberal and anti-American elements. For example, the non-Communist [redacted] president of the Chilean Chamber of Deputies was invited to make a five-week trip to the Orbit. On his return in late December he announced that he had discussed copper sales in Moscow and that Chile would receive "great advantages" from trade with the USSR. In Mexico, Lombardo Toledano's projected labor front is designed to appeal to nationalist, pacifist, and anti-imperialist sentiment.

25X6

The Guatemalan Communists are also continuing to build a popular front. In Brazil, similarly, the party's manifesto of 1 January, which states that the country "is not now ready for socialism," calls for "a broad front of all social classes," and asks for the support of industrialists and bourgeois intellectuals "whether Communist or not." In the other countries as well, the Communist line clearly reflects the strategy of the "united national front" against the "economic imperialism" of the United States. This strategy, which has received renewed emphasis since the 19th Soviet Communist Party Congress of 1952, is well adapted to Latin America.

Failing restrictive action by the other western hemisphere powers, the subsidized travel of Latin Americans to the Orbit is likely to increase. At the Tenth Inter-American Conference at Caracas in March, the United States will attempt to get the other countries to introduce controls on this traffic and on other Communist activities. Opposition to such measures, however, has already been hinted by a number of the Latin American nations.

SECRET

SPECIAL ARTICLE

A SOVIET SURVEY:
II. INTERNAL POLICY AND THE SATELLITES*

The major changes in Soviet policy since Stalin's death appear to be the result of a new assessment of the Orbit situation in relation to Western strength and a new concept of how the Soviet leaders can best achieve their over-all purposes, which remain the same as those of the previous regime.

Stalin apparently believed in maintaining strong pressure against the West and in building short-range strength for the Orbit, in terms of heavy industrial output, war materiel, and military manpower. The Soviet people were forced to build and maintain this military power with a minimum of satisfaction of their own needs. Stalin's program necessitated heavy armament expenditures, extreme emphasis on heavy industry, and the neglect of consumer welfare was rationalized as a necessary and acceptable sacrifice to security. This emphasis was of course increased by the logistical demands of the Korean war.

The shifts in policy since Stalin's death are partly a normal consequence of the change in personalities and certainly in part a result of the end of the hostilities in Korea. In addition, however, the present leaders apparently rejected the Stalinist combination of constant external pressure and short-run strength because they realized that the old policy was solidifying the capitalist world instead of exacerbating its rivalries. In addition, they probably felt that it led to an Orbit economy so unbalanced that it retarded long-range progress. They may also have lacked confidence that they could deal with the internal strains and international risks which the Stalinist policy entailed.

The Soviet leaders are now concentrating on a more balanced program, designed to provide stability and increasing strength over the long run within the Orbit, as well as on the reduction of international tension. Such a program makes possible some satisfaction of popular demands and the present leadership apparently attaches more value to popular favor as such than did its predecessor. However, the new policies probably stem less from apprehension over

* This is the second of two articles. The first one dealing with Soviet foreign policy appeared in the CIR dated 21 Jan 54.

~~SECRET~~

internal strains and weaknesses than from a belief that these stresses are no longer necessary or desirable. The new leaders apparently feel that their control will be further stabilized and strengthened by concessions to remove popular grievances, and they are attempting to increase over-all efficiency by streamlining and rationalizing their control apparatus.

A major shift has been ordered in economic policy both inside the USSR and throughout the Orbit. The previous extreme emphasis on development of defense industry is being modified in favor of a more balanced program. Compared to the original plan, output of consumer goods is to be rapidly increased and the share of the populace in gross national product is to be raised. This contrasts with a continual decline in the share indicated under the old plan.

The police terror of the Stalinist regime is being somewhat de-emphasized, as exemplified by the treatment of the Beria affair. While Beria's arrest and trial would have been a logical starting point for extensive terror, there has been no public purge like that of the 1930's.

This course has not been pursued at the expense of centralized control, however, as evidenced by the failure to revise the harsh Stalinist nationalities policy. This is at variance with other attempts to liberalize Stalinist procedures and seems to spring from fear that concessions to minority nationalities might encourage a local sectionalism which could weaken centralized control and provide opportunities for individual empire-building.

Adoption of the new policy would have been unlikely if the USSR expected to be involved in war in the next two years. The new plans will probably not be fulfilled, however, particularly in agriculture. Official statements have admitted lags in performance in other aspects of the program as well.

The program calls for sharp increases compared to the original plan in the availability of consumer goods in the rest of 1953 and in the two following years. In place of the increase stipulated in the original Five-Year Plan from retail sales of about 300 billion rubles in 1950 to about 510 billion in 1955, the government now calls for sales to reach some 600 billion in 1955. The rate of increases is to taper off somewhat in 1956.

The bulk of the additional consumer goods is to come from domestic production. A small proportion will come from increased imports and probably from some releases from Soviet reserves and inventories. These latter measures are significant in bridging the

~~SECRET~~

~~SECRET~~

time gap between planning of resource reallocation to boost domestic production of consumer goods and the actual appearance of quantities of those goods on the market.

Expanding agricultural output is the most important phase of the new program. The importance attached to it is indicated by the promotion of leading agricultural administrators in the hierarchy of the USSR and some of its republics. To encourage increases in the near future the government has raised from two to five times the prices paid to collective farms and farmers for the delivery of livestock, milk, vegetables and fodder. Delivery norms have also been reduced and credits advanced to collectives.

Of longer range significance for agricultural development are the measures to check the movement of labor from agriculture to industry and to train technical personnel. Planned investment in agriculture has been very sharply increased. Preliminary planning is under way to procure agricultural machinery from the Satellites and import capital goods from the West to expand Soviet production of agricultural machinery. The government has called for much greater support to agriculture by the machine building, chemical, electric power, transport and construction industries. Even the Ministries of Defense Industry and Aviation are to manufacture limited quantities of agricultural machinery.

To increase production of consumer goods, the government has stepped up investment in light industry and raised its raw materials priorities. Heavy industry has also been directed to expand its manufacture of consumer goods. The Soviet domestic trade network is to be swiftly enlarged through the construction and staffing of large numbers of new stores and warehouses. Moreover, consumer purchasing power this year has been substantially raised. Reductions in consumer goods prices were much larger than in immediately preceding years, and the state "loan" collected from the populace was only half as large in 1953 as in 1952.

The effort to implement the new program has entailed a leveling off in defense production and a shift in heavy industrial output to provide larger amounts of machinery and equipment for consumer goods industries and agriculture. Selective cutbacks may be forthcoming in production of those conventional armaments already stockpiled in large quantities.

The Soviet leadership may have revised the pattern of military expenditures. The former pattern provided the armed forces with large stocks of conventional weapons after World War II and permitted modernization with new equipment at a moderate rate in the ground and naval forces and more rapidly in the air forces.

~~SECRET~~

~~SECRET~~

It now seems likely that the USSR has decided on some reduction of the effort to amass weapons of existing types. This decision may have involved a shift of military allocations from existing production plans to the development of new weapons. Over-all annual military expenditures could be limited to much smaller increases than in past years without sacrifice of Soviet military capabilities, and still permit planned increases in expenditures elsewhere in the economy.

No reduction in existing military strength has been revealed to date. Moreover, sensitivity regarding the military security of the Soviet Orbit and emphasis on a high state of preparedness continue to characterize all current training activity.

In the East European Satellites, the "new look" made its appearance in East Germany on 9 June when the politburo of the Socialist Unity Party announced a series of concessions to peasants and industrial workers designed to improve labor productivity by replacing the former emphasis on coercion with a program of incentives. Despite the widespread riots among East German workers which followed the publication of this new policy of moderation, other Satellites gradually followed suit until by 5 November all had announced similar shifts in their domestic economic policies.

The common denominator which underlies the new policy throughout the Orbit is the shift in emphasis from the rapid expansion of heavy industry at the expense of food and consumer goods production to a more moderate and balanced development of the national economies within the capabilities of the various countries. One of the chief economic difficulties necessitating the "new look" was apparently the absorption of the rather limited financial resources of the Satellite regimes by the industrialization programs, which had been significantly increased in 1950 and 1951 over the originally announced Five Year Plan goals.

Several of the Satellite leaders admitted in policy statements that the industrialization aims had exceeded their capabilities and that they would henceforth base their economic development on local potentialities and rely more on imports of capital equipment from other parts of the Orbit. In every country the new policy called for planned capital investments to be reduced and the rate of expansion of heavy industrial production to be slowed. Some major long-range construction projects were canceled or cut back. For the most part, however, these were programs which were not essential to the economic well-being of the Orbit. The Communist regimes promised to appropriate the funds thus made available for investment in agriculture, light industry and housing.

~~SECRET~~

~~SECRET~~

Low labor productivity, raw materials and power shortages, and inefficient distribution caused chronic underfulfillment of the long-range economic plans which was particularly serious in the more highly industrialized northern Satellites. To overcome this, the new economic programs in East Germany, Czechoslovakia and Hungary called for apparent sharp increases in production of electric power, and especially in Czechoslovakia, of coal and metallic ores. Some of the Satellites apparently hope to increase their raw materials supplies through increased trade with non-Orbit countries as well. Transportation and marketing reforms were planned to improve distribution.

The measures by which the Satellite governments hoped to regain the full support of the urban workers included lowered prices on foods and consumer goods, promises of improvements in the quantity and quality of consumer goods, improved distribution and increased investments for the construction of sorely needed urban housing. Price reductions were decreed in Hungary, Czechoslovakia, Bulgaria, East Germany and Poland. There is evidence that flour and meat were released from stockpiles in East Germany, Hungary and Rumania to offset the extreme food shortages of last winter and spring.

However, work norms apparently would not be reduced. Following the 17 June riots the East German government rescinded general norm increases effected in April, but on 17 September Deputy Prime Minister Ulbricht stated that selective increases could again be expected. In the other Satellites, pressure on the workers to increase production continued unabated.

The emphasis to be placed on the rapid increase of agricultural production was an outstanding characteristic of the new economic policy throughout the Satellites. Past inadequacies of both food and industrial crop production were readily admitted by the Satellite regimes. Shortages, especially serious in Hungary and the Balkans because of the 1952 drought, had been aggravated by peasant apathy and inadequate field work. In East Germany, Poland, Czechoslovakia and Hungary, peasant resistance to the Communist agricultural policies had increased this year as a result of the stepped-up collectivization drive which took place during the last half of 1952 and the first three months of 1953.

In an effort to overcome peasant resistance, specific concessions were promised to both collectives and independent farmers and large sums were scheduled to be allotted to the improvement of agricultural techniques. The concessions consisted mainly of cancellation or deferment of debts, reduction of taxes in some of the Satellites, reduction or "revision" of agricultural quotas, increased

~~SECRET~~

~~SECRET~~

prices and bonuses for crop deliveries and, particularly in Hungary and Czechoslovakia, a renewed pledge that collectivization was to be solely on a "voluntary" basis. Large sums of money were to be allocated for the extension of credits to both collectives and private farmers, to permit the expansion of mechanization and the purchase of fertilizer, seed, livestock and equipment. In most cases these concessions have favored the collectivized area in order to convince farmers of the desirability of socialized agriculture.

A slackening of the collectivization program was announced, either directly or by inference, in all the Satellites except Bulgaria, which is also the only country to neglect the independent farmer in its promises of concessions. The reason for this may be that whereas in the other Satellites the regimes depend on the independent farmers for 50 to 90 percent of the agricultural production, Bulgaria has collectivized over 60 percent of all arable land.

The ultimate Communist goal of collectivization of all land was not forsaken, however. This was made particularly clear in Hungary, where a large number of peasants apparently misinterpreted Premier Nagy's promise on 4 July 1953 that they could leave the collectives. Some began to withdraw immediately. The resultant threat of wholesale withdrawals forced the regime to modify its emphasis on incentives and relaxation of pressure on the peasants, and to resort to a policy of strong discrimination in favor of collectives and threats to those peasants who intended to withdraw. On 28 September Czech president Zapotocky indicated that his government had no intention of permitting wholesale withdrawals from the cooperatives.

With minor variations, Hungary, Czechoslovakia and Albania imitated the USSR in streamlining their governmental organizations and reshuffling political leaders. There was no evidence that the reorganizations were associated with Beria's fall or that, except in East Germany, they represented a purge.

The professed Soviet policy of detente in foreign affairs was also adopted by the European Satellites. Apparently this detente does not include either West Germany or the United States, which after a short period of relaxation are again the targets of vilification and internal "vigilance" campaigns.

The Satellites were not forced to institute a new economic policy because of fear of imminent rebellion. Political control remains securely in the hands of the regimes and despite symptoms

~~SECRET~~

~~SECRET~~

CONFIDENTIAL

of unrest, no organized resistance movements exist with the possible exception of East Germany. It is apparent, however, that the industrialization and socialization programs ordered by the USSR had exceeded the financial, material and human capabilities of the Satellite economies. The coercive measures by which the regimes had tried to force increased industrial and agricultural production from their citizens and the lack of concern for the workers' well-being had caused considerable apathy or disaffection, to the detriment of both the economic and political programs.

CONFIDENTIAL

~~SECRET~~