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17 September 1959

# CURRENT INTELLIGENCE WEEKLY SUMMARY



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T H E   W E E K   I N   B R I E F

PART I

OF IMMEDIATE INTEREST

KHRUSHCHEV VISIT . . . . . Page 1

Moscow is taking the line that both the successful Soviet moon shot and what it describes as Khrushchev's warm and enthusiastic reception in the United States augur well for the successful outcome of Khrushchev's visit and the creation of a favorable climate for future negotiations. Emphasis on the desirability of "peaceful coexistence" and "peaceful competition" has continued, one Soviet Foreign Ministry official expressing the belief that peaceful coexistence on the basis of the status quo in Europe will ultimately result in Western recognition of East Germany and a "permanent solution" of the German and Berlin problems. Soviet spokesmen have tried to create the appearance of Moscow's dissociation from Communist actions in Asia and have indicated the USSR's desire to prevent an aggravation of the situation which could prove an embarrassment to Khrushchev during his US tour.

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LAOS . . . . . Page 3

The USSR, in a move to undercut United Nations action on Laos, has proposed a meeting of those nations which attended the 1954 Geneva Conference ending the Indochinese war. The French continue to deprecate the emphasis on military activity in Laos and appear to favor concessions to the Laotian dissidents by the Phoui government to "stabilize" the situation. Military activity has slowed as the investigation by the UN fact-finding mission gets under way, but sporadic clashes continue in Sam Neua and Phong Saly provinces and in central Laos.

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DE GAULLE'S PROPOSALS FOR ALGERIA . . . . . Page 5

De Gaulle's commitment to give Algerians a choice of several alternatives including independence is intended partly to isolate the rebels in international opinion as the UN General Assembly opens. He took a calculated risk vis-a-vis the French Army in offering self-determination, but public expressions of support from a wide range of political leaders in France should help him weather any overt opposition, whether from the military, French rightists, or European extremists in Algeria. The rebels,

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to whom no concessions were offered, view the proposals as a tactical move which may undercut their support in Algeria, and they show no signs of early capitulation.

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**PART II**

**NOTES AND COMMENTS**

**MIDDLE EAST HIGHLIGHTS . . . . . Page 1**

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[Redacted] the death sentence given Brigadier Tabaqchali, the vehement anti-Communist accused of complicity in the Mosul revolt last spring, may bring a further deterioration in relations between anti-Communists and Prime Minister Qasim. UAR officials appear increasingly apprehensive that their application for a World Bank loan for improvements to the Suez Canal will be blocked or delayed. Israel is stepping up public and private activity in anticipation of another UN debate concerning Arab-Israeli relations.

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[Redacted]

**SINO-INDIAN BORDER DISPUTE . . . . . Page 3**

Peiping, in a week-long propaganda campaign, has sought to counter Indian charges of aggression along the border. Nehru, under increasing domestic pressure to adopt a less conciliatory stand, has presented lengthy rebuttals to the Chinese arguments. Both the Chinese and Indians, however, continue to call for "friendly negotiations,"

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Although neither side will make significant territorial concessions, Khrushchev probably would seek to create an atmosphere in which Communist China and India could discuss such "small and isolated places" as Longju where some form of accommodation seems most feasible.

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**DALAI LAMA'S APPEAL TO THE UNITED NATIONS . . . . . Page 5**

Many UN members, including even such Buddhist countries as Burma, Thailand, and Ceylon, are reluctant to sponsor Tibet's appeal to the UN. These countries profess willingness to support the Dalai Lama on humanitarian grounds, but oppose any UN discussion of the political aspects of the case, particularly Chinese suzerainty. India continues opposed to any UN debate on the subject.

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In its first statement on Tibet since last spring, Peiping on 13 September linked the Dalai Lama with "cold-war conspiracies," in an effort to detract from any sympathy which might be given his appeal. [redacted]

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**ELECTIONS IN 14TH UN GENERAL ASSEMBLY . . . . . Page 6**

The USSR, in its effort to gain high UN elective offices for bloc countries, has an opportunity to exploit the contests now developing among other members over elective seats to the major UN bodies. There is speculation among UN members that Moscow will be willing to permit the Eastern European seat on the UN's Economic and Social Council to go to an Asian country this year in return for Poland's election to the Security Council. Moreover, high-ranking UN Secretariat officials and many UN members believe the past practice of relegating Soviet bloc candidates to lesser UN offices has become inappropriate. [redacted]

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**PRIVATE OWNERSHIP OF LIVESTOCK BANNED IN SOVIET URBAN AREAS . . . . . Page 7**

Private ownership of livestock in virtually all urban areas of the Soviet Union is to end in October. In response to Khrushchev's criticism of the practice, the Russian Republic (RSFSR), the largest administrative area of the USSR, abolished it in mid-August, following similar decrees announced earlier for Kazakhstan, Armenia, and the Ukraine. The regime evidently feels confident that such measures--unthinkable four years ago when incomes were lower and livestock products less available in the cities--will not evoke serious dissent. [redacted]

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**PEASANTS DISTRUST NEW POLISH AGRICULTURAL PROGRAM . . . . . Page 8**

Polish peasants distrust regime efforts to persuade them to join agricultural "Circles"--formerly peasant self-help associations--which are to receive state funds for the mechanization of Polish agriculture during the next seven years. The regime's strong commitment to this program could create a conflict with the peasantry, which sees it as a first step toward collectivization. [redacted]

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**REORGANIZATION OF THE USSR'S BANKING SYSTEM . . . . . Page 9**

By a recent reorganization of the banking system of the USSR, announced on 1 July and scheduled to have been completed by 1 September, the Agricultural Bank, the Industrial Bank, and the Communal Banks were abolished, and all banking operations consolidated into two banks: the existing State Bank (Gosbank) and the newly formed

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All-Union Bank for Financing Capital Investment (Stroybank). Measures have also been taken to better balance planned cash outlays and receipts at the local level and to ensure the proper observance of local cash plans as made. It is probable that these moves may have some temporary disruptive effect on the banking system at local levels.

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PHILIPPINE PRE-ELECTION OUTLOOK . . . . . Page 11

The collapse of attempts by the two opposition parties in the Philippines to create a coalition has boosted the prospects of President Garcia's Nacionalista party in the provincial and senatorial elections on 10 November, despite the unpopularity of his administration. The Nacionalistas, however, face trouble in the southern Philippines, where influential party figures are openly combating Garcia men in Cebu and pose a threat to the party's over-all performance.

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POSSIBLE CRISIS IN INDONESIA . . . . . Page 12

A serious government crisis may develop in Indonesia as the result of conflict between the army and high-ranking leftist civilians who are allegedly trying to undermine the military. The army's position is still strong, and further development of the situation depends largely on the attitude of President Sukarno. Sukarno's laudatory remarks at the closing session of the Communist party's sixth national congress on 16 September countered to some extent the army restrictions which had earlier prevented the Communists from deriving any significant publicity from the meeting.

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CAMEROUN . . . . . Page 13

Terrorist attacks, believed directed by Communist-supported exiled nationalist extremists, remain a serious security problem in the southwestern area of the French-administered UN trust territory of Cameroun. With the UN General Assembly now in session, the extremists will probably try to extend and intensify the attacks in a

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last-ditch effort to induce that body to order new elections before Cameroun becomes independent on 1 January. However, moderate Camerounian Premier Ahidjo appears to be in a relatively strong position domestically and internationally, and will probably be able to control the situation.

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**ITALY FACES SOMALI DEMAND FOR ACCELERATED INDEPENDENCE . . . Page 15**

Rome has voiced no formal objection to the Somali Assembly's recent resolution calling for an end to Italy's trusteeship in Somalia "as soon as possible," but the Italians can be expected to remain in control until the scheduled termination date of 3 December 1960. The Italian administration shares the attitude of certain business interests which seem confident of maintaining Italy's primacy in Somalia by subsidizing the export to Italy of the territory's principal product, bananas.

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**SWEDEN AND NUCLEAR WEAPONS . . . . . Page 15**

The question of whether Sweden's armed forces are to be equipped with tactical nuclear weapons will again come under discussion when Parliament reconvenes next month. Sweden has planned facilities which will probably enable it to produce sufficient plutonium for undertaking a nuclear weapons program in five or six years. The Social Democratic government is still trying to postpone any decision, partly because of dissension within the party and partly out of fear that Swedish action might be regarded with disfavor by the nuclear powers as long as they are negotiating regarding a test ban. Recent opinion polls, however, reveal growing public sentiment in favor of acquiring such weapons.

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**LEFTIST DRIFT IN BOLIVIA . . . . . Page 16**

Radical elements in the ruling party of Bolivia, supported by Communists, are making increasing headway with anti-US issues. Specifically, the leftists seek Soviet economic aid and the abrogation of the present petroleum code, which is favorable to foreign capital. The failure of President Siles and his moderate supporters to defend the US-backed economic stabilization program seems to be contributing to the success of these leftist efforts.

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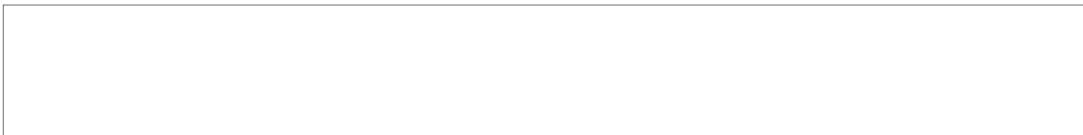
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**PART III**


**PATTERNS AND PERSPECTIVES**

**PROSPECTS FOR THE SOVIET CONSUMER . . . . . Page 1**

The standard of living of the Soviet population, still low by Western standards, has been advancing steadily during the past seven years, although the satisfaction of consumer demands continues to be subordinate to the expansion of industrial and military strength. The rapid growth of the gross national product has been accompanied by an average increase since 1951 of 5 percent a year in per capita consumption. Although this rate will be somewhat lower under the Seven-Year Plan (1959-65), the Soviet consumer can still expect a major improvement in housing, shorter working hours, increased pensions and minimum wages, and a continuing sharp increase in the supply of durable consumer goods. 

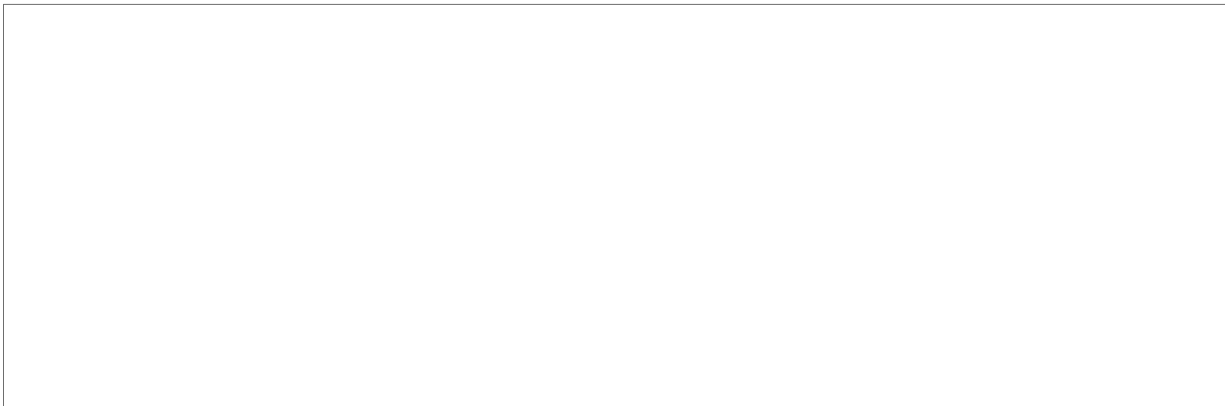
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**DRIVE FOR SOCIALISM CAUSES PROBLEMS FOR EAST EUROPEAN REGIMES . . . . . Page 5**

The accelerated drive of all the East European satellites except Poland to "achieve socialism" by 1965 has created a number of serious problems for the various regimes. In Czechoslovakia, East Germany, and Hungary, there has been popular reaction against elements of the program, while in Bulgaria and Hungary ambitious goals and harsh methods have fostered differences and controversies within the parties themselves. 

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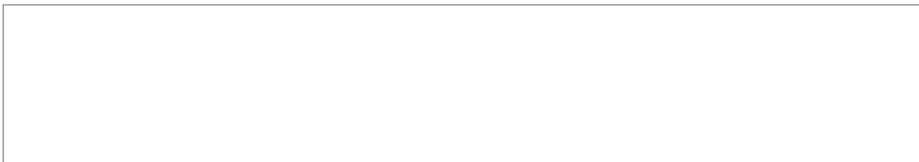
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**WORLD BANK MOVES TO STRENGTHEN AID TO LESS-DEVELOPED COUNTRIES . . . . . Page 13**

Finance ministers of 68 non-Communist nations meeting in Washington from 28 September to 2 October as governors of the International Bank for Reconstruction and Development are expected to favor the American proposal for a \$1 billion International Development Association to help meet the sharply rising needs of the less-developed countries for financial assistance. Faced with popular pressures for rising standards of living, these countries are no better off now than 30 years ago in their ability both to attract foreign private capital and to finance greatly expanded imports out of their own earnings. In a concurrent meeting of the International Monetary Fund, attention will probably be directed to the removal of remaining exchange restrictions against the dollar, particularly in Western Europe. Action along this line would tend to ease the United States' substantial over-all payments deficits and gold losses. 



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OF IMMEDIATE INTEREST

## KHRUSHCHEV VISIT

As Khrushchev prepared to leave for the United States, Soviet commentators continued to build up his personal prestige and give tributes to his unceasing efforts to bring peace to the world. The premier's cool reception in Washington was described for the Soviet people as one of extreme friendliness and enthusiasm. Propagandists praised the successful moon shot as a "reaffirmation of the leading role of the USSR in the highly important spheres of science and technology" and of the "undoubted superiority of the socialist system," cited it as proof of the USSR's devotion to peace, and declared that many Americans see it as a "good augury" of Khrushchev's visit.

"Peaceful coexistence" continues to keynote Soviet comment on the visit. Khrushchev's remarks before the National Press Club on 16 September emphasized this theme and reaffirmed long-established Soviet positions on issues in dispute. The Soviet premier called for increased US-Soviet trade as an important means for improving relations and referred to the improved climate in international relations compared with six years ago, as is evidenced by Vice President Nixon's visit to the USSR, Mikoyan's and Kozlov's visits to the United States, and the exchange of exhibitions. He commented he would present a new disarmament proposal when he

speaks at the United Nations on 18 September.

Later, before the Senate Foreign Relations Committee, Khrushchev listed as topics he would like to discuss with President Eisenhower disarmament, liquidation of foreign bases, and disengagement in Europe. Khrushchev parried questions on Communist interference in Laos, Tibet, and along the Chinese-Indian border on the grounds that any discussion of these issues would violate his arrangement with the President "not to discuss other countries" and suggested that any US inquiries on these matters be addressed directly to Peiping.

A TASS correspondent in London recently said he felt that something tangible must result from the Khrushchev-Eisenhower exchange of visits, and he mentioned the possibility of agreements on the cessation of nuclear testing and on trade. He stressed the importance of disarmament and urged that the United States sign a nonaggression pact with the Soviet Union. Touching also on the Berlin issue, the correspondent said the USSR will try to work out "something like a series of status quos." He denied any Soviet intention of taking "dangerous" action on this question and remarked, "We can keep talking about Berlin for some time to come."

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Soviet spokesmen have tried to create the appearance of Soviet dissociation from events in Laos and on the Sino-Indian frontier and have indicated the USSR's desire to prevent any further aggravation of these situations which could prove embarrassing to Khrushchev during his US tour and to the Soviet Union in its relations with these two Asian states.

The TASS correspondent took a similar line, claiming the USSR bears no responsibility for recent Chinese Communist actions in the Far East. It is "hardly logical," he said, "to assume that the USSR would apply pressure" against non-Communist Asian countries on the eve of Khrushchev's visit. He asked why the Soviet Union should be blamed for "everything that happens" in bloc countries and stressed that the USSR wished to prevent any worsening of the situation and would "do everything possible" to avoid jeopardizing the chances for a detente with the United States.

Reaction to Lunik II

The Soviet moon shot won Western Europe's admiration for the scientific achievement it

represented and gave rise to a complete range of speculation on its likely significance for Khrushchev's visit to the United States.

Most European reaction followed that of Britain's Professor Lowell, head of the Jodrell Bank station that first announced the impact, who expressed his "amazement and astonishment" at the rocket's precision. West German rocket expert Hermann Oberth, recently returned from the United States, saw the Russian lead in rocket engines confirmed, even though he said the United States is catching up and remains ahead in basic research. London's pro-Conservative Daily Mail described the Soviet accomplishment as "man's greatest single scientific achievement."

A leading British scientist opined that the launching rocket was probably twice as powerful as the Atlas now being tested in the United States. The semiofficial French press agency AFP said, however, the "new Soviet advantage in ultra-modern arms" was likely to prove only temporary.

Western European press comment dwelt heavily on the timing of the shot just prior to Khrushchev's arrival in Washington. This sequence, said Duesseldorf's Der Mittag, was "like laying a pistol on the table before conversations begin." No suggestion has been reported, however, that the United States would be impressed into making concessions,

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and French press comment has contained none of the earlier apprehensions regarding the exchange. French speculation was concerned with how Khrushchev would conduct himself; Le Monde asked: What are the intentions "of a man who does not fear to bring his host a replica of the Soviet emblem projected to the moon?"

A British paper saw Khrushchev now better able to offer concessions. Rome's conservative Il Tempo advised that the space race dismays no one and "characterizes the ideally new relations which one would like to create between East and West." AFP hopes the prospects for the

conquest of space will reveal the pettiness of many worldly differences.

Fragmentary Latin American commentary on the Soviet moon rocket focuses mainly on the magnitude of the scientific achievement. In Cuba, however, Fidel Castro's pro-Communist aide Ernesto "Che" Guevara argued on a television program on 14 September that Cuba is in danger of being a target of nuclear weapons because of the US naval base at Guantanamo. Without mentioning Russia by name, he said "If they can hit the moon, they can surely hit us."

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## LAOS

The Soviet Union, thwarted in its attempts to prevent through a veto the UN resolution to establish and send a fact-finding group to Laos, on 14 September proposed a reconvening of the members of the 1954 Geneva conference, an action that would undercut the UN subcommittee. Moscow's strong statement, which obliquely threatened retaliatory Communist action against Laos, Cambodia, and South Vietnam, set forth the Communist conditions for a settlement of the present conflict--a return to the use of the International Control Commission (ICC), reduction in the import of arms and military advisers to Laos, and inclusion of the Pathet Lao in the government.

Although previous statements by Soviet spokesmen had indicated some discomfort over the existence of the conflict at a time when Khrushchev was trying to present a picture of reasonableness, the 14 September pronouncement showed clearly that Moscow was not so embarrassed as to be willing to

bring pressure on the Laotian rebels and the North Vietnamese to curtail their activities before they gain some of their long-term objectives.

The USSR's Geneva conference proposal has been promptly seconded by Peiping and Hanoi. Communist China and North Vietnam probably share the Soviet hope that the proposal will provide an alternative to UN action and will place non-Communist nations in the position of seeming to refuse a peaceful solution to the Laotian situation. Should a conference materialize, both Peiping and Hanoi would expect further gains in international prestige and influence in addition to any substantive benefits that might be obtained.

With the UN fact-finding subcommittee now in Laos, the tempo of dissident military activity has slowed; sporadic fighting continues in Sam Neua and Phong Saly provinces and in central Laos. Such elements from North Vietnam as may have participated in the fighting in

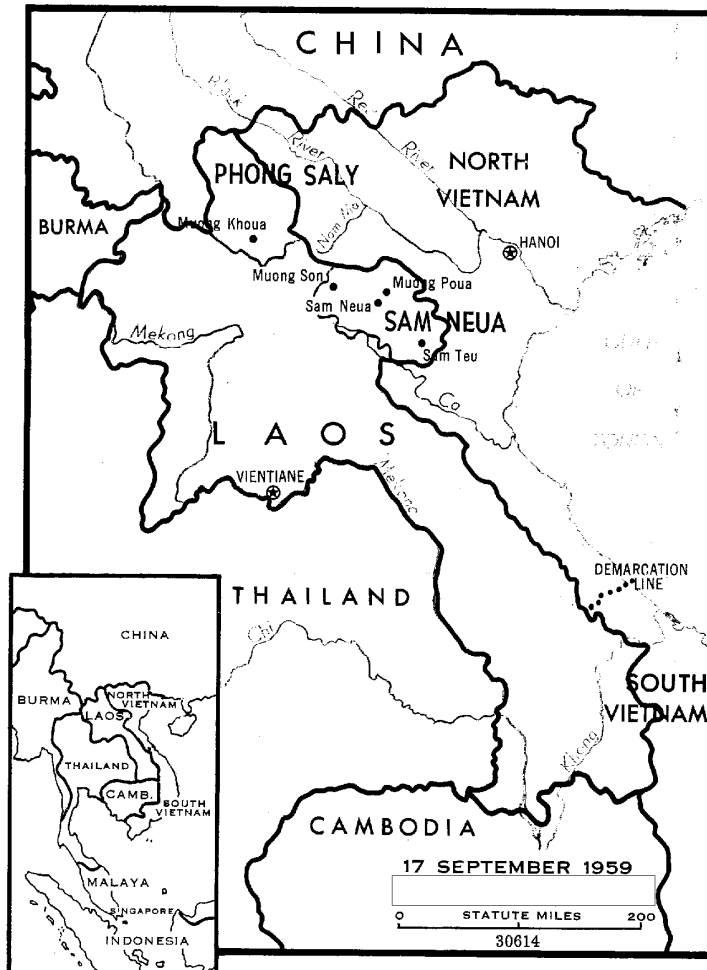
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Sam Neua and Phong Saly earlier in the month may now be "lying low," as the Communists have been at some pains to deny "slandorous" charges of North Vietnamese participation in the conflict. A complete cessation of hostilities coincidental with the arrival of the UN mission, however, would have tended to refute the Communist portrayal of a "popular uprising." Future Communist military activity in Laos probably will be at a level designed to avoid clear-cut justification for Western intervention but at a pace sufficient to continue to erode the Laotian Government's position.

Laotian officials admit the possibility of some unintentional exaggeration in the communiqués on the fighting to date, but express confidence that the investigation by the UN team will bear out Laos' charges that North Vietnam is actively supporting the dissidents. Arrangements are being made to fly the investigators by light plane and helicopter to the remote fighting areas. The hit-and-run tactics of the enemy and the rugged terrain, however, virtually preclude effective observation.

French officials, in line with their view that the trouble in Laos is largely of domestic



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political origin, have sought to depreciate the military threat and have accused the Laotian Army of exaggerating external Communist assistance in order to cover its own "ineptness." Paris feels that the crisis has been brought about by the failings of the Phoui government which have created a favorable climate for Communist subversion. While France approves of the UN fact-finding subcommittee on the ground that this will have a calming effect, strengthen Laotian morale, and buy time for domestic reforms, it

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would oppose any other form of international action, particularly the direct involvement of SEATO, which it thinks might precipitate "a Communist military reaction." It has rejected the Soviet proposals for the reconvening of the Geneva conference.

Secretary General Hammarskjold believes that the real value in the UN's action on Laos to date is the establishment of its "presence" in the area. He is anxious to shift from Security Council action to General Assembly action, which could legally enable him to appoint a personal representative to Laos. There appears to be growing support among non-Communist nations for the retention of some kind of UN presence in Laos.

Hammarskjold forecasts that the UN subcommittee on Laos--now in Vientiane--should submit its final report in about a month. The Security Council then would call for an investigation on the basis of the subcommittee's findings. The USSR would veto such action, thus enabling General Assembly action under the 1950 "Uniting for Peace" resolution. The secretary general plans only to ask the assembly to authorize him to appoint a special representative to the area rather than an investigative body, in an effort to offset criticism from the many UN members who favor using the ICC machinery in Laos. Hammarskjold's thinking reflects his basic desire to keep all UN activities on as sound a legal basis as possible.

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## DE GAULLE'S PROPOSALS FOR ALGERIA

French President de Gaulle's 16 September commitment to self-determination for the Algerians--including independence as one of three future options--is aimed partly at isolating the rebels in international opinion as the UN General Assembly convenes. The proposals also will serve to undercut opponents of De Gaulle's liberal policies among French rightists, the army, and European settlers in Algeria. Rebel leaders fear the impact of the proposals on the Algerian Moslem masses, and tend to see them as a purely tactical move; they show no signs of accepting De Gaulle's terms in the near future.

De Gaulle took a calculated risk vis-a-vis the army in offering independence as a

choice. He hedged the offer, however, by promising continued pacification efforts until total annual French casualties are below 200--the current total is estimated at 1,500--and warned the Algerians of the political and economic chaos which would follow secession. He made clear France's intention to retain control of the Sahara and its riches regardless of the Algerians' choice.

His clear hint of partition was a threat to the Moslems and a sop to military and civilian rightists who might also be swayed by his offer of integration of Algeria with France. The attention De Gaulle devoted to the middle-road, federal-type option, however, indicates his personal preference for this as

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the most realistic and equitable solution.

Although the press has reported bitterness among junior army officers over "shedding blood and then abandoning Algeria," the supreme commander in Algeria, General Challe, has publicly pledged the army to back De Gaulle's decisions, and has warned extremists against any overt opposition.

French rightist leaders such as Georges Bidault, who had been approached by European settler representatives who anticipated De Gaulle's proposals, refused to participate in protest demonstrations. They can be expected to blast De Gaulle vocally, but the public temper seems best expressed by the many middle-of-the-road French political leaders--ranging from Socialist leader Guy Mollet to Independent Paul Reynaud--who immediately announced their support. Similar support is evident in the press, and publicized reaction in European capitals has also been favorable.

The most outspoken discontent has been expressed by the European settlers in Algeria, particularly the veterans' organizations. The degree to which the settlers can marshal any effective opposition is limited, however, by the quarrelsome fragmentation of their groups and by uncertainty as to any firm support from like-minded military elements. Press censorship has been imposed in Algiers, forbidding any comment on De Gaulle's proposals.

The American Embassy in Paris believes De Gaulle's statement to have been genuinely and earnestly designed as a means of evolving a solution of the problem which would safeguard France's essential rights and protect the long-established European settlements in Algeria. The embassy feels De Gaulle has a good chance of "winning his gamble," but notes as potentially dangerous to him the increasing desperation of French opponents of his policy and the additional complications which wider international recognition of the rebels would produce.

Algerian rebel leaders gathered in Tunis appear certain to denounce De Gaulle's unwillingness to negotiate with the rebels' National Liberation Front (FLN), although they may offer counterproposals. Even prior to his speech, rebel officials had expressed concern that De Gaulle might offer "meaningless" proposals designed to influence the forthcoming UN debate on Algeria.

The De Gaulle program, for all its qualifications with respect to independence, appears to hold out a sufficiently attractive prospect to Algerian Moslems as to pose a threat to popular support of the FLN. A large proportion of Algerian Moslems has been regarded as largely apathetic concerning the five-year-old war, and skillful French exploitation of De Gaulle's program might further undercut Moslem support of the rebels.

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## PART II

NOTES AND COMMENTS

## MIDDLE EAST HIGHLIGHTS

Iraq

The death sentence given Brigadier Tabaqchali on 16 September for his alleged role in the Mosul revolt last spring may lead to a further deterioration of relations between Qasim and the anti-Communists. Tabaqchali, through his defiant behavior during his "trial" before Colonel Mahdawi's People's Court, had become a symbol of resistance to Communist intimidation. Qasim reportedly is pleased with the news that Mahdawi and the court prosecutor are scheduled to depart for Peiping later this month, thus removing two of the most immediate objects of "nationalist" hatred.

On the general Iraqi scene, the seesaw between the Communists and their opponents has seemed to be tipping slightly in favor of the latter during the past week. A government decree, which may be of considerable significance if the anti-Communists can take advantage of it; has in effect ordered a reorganization of the peasants' associations which multiplied under Communist aegis early this year. Licensing of local associations will now be in the hands of provincial governors,

rather than in the control of the central Communist-dominated federation, and the leadership of the associations is to be placed in the hands of genuine peasants rather than in those of professional agitators.

On the other hand, a possible longer term gain for Communist influence is indicated by information that the Sino-Soviet bloc is likely to obtain a far higher percentage of Iraqi students abroad than it has in the past. During 1958-59, twelve students, less than one half of one percent of these Iraqis, were placed in universities in the bloc. For 1959-60, however, the bloc has offered some 450 partial or full scholarships. The Iraqi Ministry of Education, one of the first government departments to come under strong Communist influence, will probably abet a shift toward educational institutions in the bloc, and a substantial number of the 2,000 students whom it plans to send out of the country this year on Iraqi Government scholarships may also go to the bloc.

UAR

UAR officials are showing increasing concern that Cairo's application for a World Bank loan for improvements to the Suez Canal may be blocked or delayed, largely as a result of complications with Israel, and it has been suggested that Cairo might withdraw the application rather than suffer a rebuff like that it received over the Aswan Dam financing in 1956. UAR Economics Minister Qaysuni conferred with British Foreign Secretary Selwyn Lloyd in London this week, and expressed

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his apprehensions on this issue while concurring that relations between London and Cairo were generally improving. Lloyd, according to British officials, told Qaysuni that Britain would not object to the loan, although he made no commitment to support it.

Internally, President Nasir is still faced with problems in the Syrian region which affect the organization of the over-all UAR Government structure. Syrian Interior Minister Abd al-Hamid Sarraj is visiting Cairo, reportedly to air his complaints that the Syrian regional administration is still too much ridden with political factionalism.

The resignation on 14 September of Riyad Malki, Syrian minister of culture and guidance, may speed up Nasir's previously reported plans for a general reorganization. Malki, one of the few remaining Baath party members of the Syrian regional cabinet, probably ran afoul of Sarraj

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With Malki already out of the way, the regime may take the opportunity to drop other troublesome ministers by means of a cabinet switch, which would serve to avoid the appearance of a purge.

The Nasir propaganda apparatus continues, meanwhile, to take sporadic pot shots at the Soviet bloc, apparently mainly in retaliation for bloc radio and press criticism. The Cairo moves in this field have been prompted largely by

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telegrams into Cairo from various international Communist and Communist-front organizations protesting the state security trials now going on in the UAR. The defendants are all top-flight members of the Communist party rounded up since the beginning of Nasir's latest

internal anti-Communist campaign early this year. Demands have also been made that the UAR Government release Farajullah Hilu, a member of the central committee of the Lebanese Communist party who was arrested in Damascus last July.

Within the UAR, Communist activity has practically come to a halt; the party's clandestine propaganda effort has been feeble, and the number of its partisans arrested is almost certainly over a thousand. A number of party leaders, especially in Syria, have recanted and thereby gained release; others have fled the UAR, mainly to Lebanon and Iraq; the whereabouts of Khalid Bakdash, leader of the Syrian party and the outstanding Communist leader in the area, is periodically reported to be somewhere in the bloc.

Jordan

The Arab press has been speculating on the possibility of a meeting between King Husayn and Nasir, and the possibility of a tripartite meeting including Saudi representatives

[redacted]

[redacted] are also concerned again about the perennial issue of Israel's access to and use of Mount Scopus, in the Jerusalem area.

[redacted]

Israel

The Israelis recently have been giving an unusual amount of publicity to border infiltrations and other incidents which normally receive a minimum of attention. Two factors are probably responsible: an Israeli Army officer was killed

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by infiltrators recently, and sterner measures against them will probably be taken for a time; and the Israelis are moving into high gear their propaganda and diplomatic efforts in anticipation of a UN General Assembly debate over the Suez Canal and Palestine issues.

The Israeli position with some of the "friendly states" it has cultivated in the Asian-African bloc in the UN may be undermined, however, by Tel

Aviv's reluctant decision that Israel must give France unqualified support on the Algerian and other issues which may come before the assembly. According to an Israeli Foreign Ministry official, this decision was made because of the necessity of relying on the French in matters vitally affecting Israel's security--i.e., the supply of arms and the cooperation between the two countries in scientific and nuclear energy matters.

## SINO-INDIAN BORDER DISPUTE

In a week-long propaganda campaign to counter Indian charges of aggression, Peiping called for "friendly negotiations" to settle the Sino-Indian border dispute. The standing committee of Communist China's National People's Congress, in a three-day session beginning on 11 September, became a forum for replying to the "anti-China campaign" launched in the Indian Parliament by Prime Minister Nehru's 28 August announcement of the Chinese incursions.

Premier Chou En-lai keyed the session, complaining that India "has resorted to force" to back up its territorial demands and insisting that the McMahon line is "illegal." While lesser speakers adopted a harsher tone and specifically criticized Nehru, no Chinese statement has yet refused to accept the McMahon line as a temporary basis for re-establishing the "status quo" which existed before Indian troops moved up to new positions on the frontier last spring. Reflecting the standing committee's theme, Chinese Communist press, radio, and public rallies condemned Indian activities along the border, charging that

Indian criticism is encouraging elements hostile to Sino-Indian friendship.

On the last day of the standing committee session on 13 September, Foreign Minister Chen Yi said there was "no question of Chinese troops withdrawing from anywhere"--but that Peiping was willing to negotiate such disputes as that over claims to Longju, where the Chinese seized an Indian outpost on 26 August. In an effort to pressure Nehru into muzzling the Dalai Lama and to detract from his UN appeal, Chen also made Peiping's first reference to the Tibetan leader in recent months, implying Indian connivance in the Dalai Lama's international maneuvering. Chen, however, welcomed Nehru's stand on Laos, and the resolution adopted by the standing committee did not attack the Indian Government in its mildly worded call for a "reasonable settlement."

On 16 September, Peiping broadcast a People's Daily editorial, the tone of which suggests the Chinese may soon reduce the volume of their anti-Indian propaganda. This would be intended to encourage a letup

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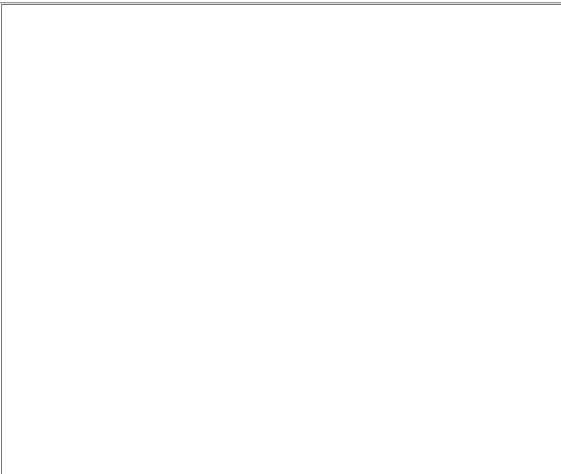
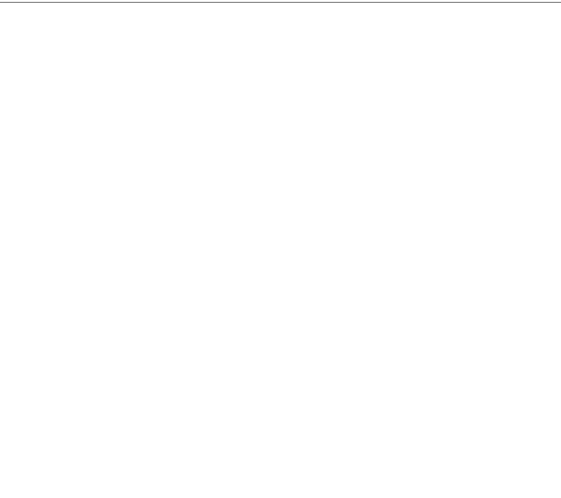
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in Indian attacks and help create an atmosphere in which talks could be held.

Nehru showed his irritation over the extensive Chinese propaganda activity by presenting lengthy and heated rebuttals to Chinese arguments during the closing sessions of the Indian Parliament. He took Chou to task for accusing the Indians of following in the tradition of British "imperialism," noting that China "got so big" as a result of past "imperialism."

Nehru has been strongly criticized for keeping the recent history of Sino-Indian border disputes from the public until the present time, and has come under increasing pressure in Parliament to adopt a less conciliatory stand on the border dispute. Nehru has reaffirmed his desire for a peaceful settlement and, like Chou En-lai, expressed a willingness to discuss the "small isolated places" where some form of accommodation is most feasible.

There have been further signs of Moscow's concern that developments in the border dispute might have an adverse effect on Khrushchev's trip to the United States and might damage the USSR's relations with India. The Soviet leaders are anxious to ease the situation and are seeking a way out of the dilemma which the dispute has created for Moscow's relations with both countries.



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Khrushchev's decision to intervene in this situation apparently was prompted by his concern over the hardening in both Peiping's and New Delhi's positions. He probably feels that their claims have created an impasse which, if allowed to continue, will give Moscow no choice eventually but to support Peiping's position at the risk of jeopardizing the USSR's important relations with India.

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## DALAI LAMA'S APPEAL TO THE UNITED NATIONS

Many UN members, including even such Buddhist countries as Burma, Thailand, and Ceylon, are reluctant to sponsor Tibet's appeal to the UN. These countries profess willingness to support the Dalai Lama on humanitarian grounds, but they oppose any UN discussion of the political aspects of the case, particularly Chinese suzerainty. India continues opposed to any UN debate on the subject, but the Malayan and Philippine UN delegates are pursuing their campaign to get widespread support for the Dalai Lama.

Although the Dalai Lama in his 9 September appeal specifically cited Chinese Communist "aggression against the sovereign state of Tibet," most UN members are agreed that his case would obtain wider support if it were based solely on "oppression of human rights." British High Commissioner to India Malcolm MacDonald has warned, however, that even this charge would require very good basic evidence.

Even Nationalist China's chief UN delegate has expressed doubt that the Tibetans could produce convincing evidence of Communist atrocities. He added that Peiping had probably done no more in Tibet than elsewhere on the mainland.

The Nationalists are also aroused over the Dalai Lama's stress on Tibet's "sovereign status." Vice Minister for Foreign Affairs Chou Shu-kai told American officials that if Tai-

pei were forced to express its views on the status of Tibet, "it would be put in the extremely distasteful position of having to side with Peiping."

Britain is reluctant to encourage UN discussion of Tibet. London apparently fears that any Western UN initiative on Tibet would weaken the anti-Peiping trend in Indian public opinion caused by New Delhi's present problems with Communist China.

Peiping broke its long silence on the Dalai Lama on 13 September, when Foreign Minister Chen Yi said the Buddhist



DALAI LAMA

leader's appeal far exceeded "what is allowed under the international practice of asylum." The same day, Chinese Communist propaganda media, without attacking the Dalai Lama directly, charged that "reactionary forces in India and abroad are using the

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Dalai Lama as a tool against China." To avoid encouraging world interest in Tibet, the Chinese have not mentioned the Dalai Lama since last spring, when they claimed he was taken to India under duress. Peiping

probably now hopes, by linking him with "cold-war conspiracies," to detract from any sympathy which may be aroused among UN members by his recent appeal. 25X1

## ELECTIONS IN 14TH UN GENERAL ASSEMBLY

The USSR, in its effort to gain high UN elective offices for the bloc countries, has an opportunity to exploit the contests now developing among other members over elective seats to the major UN bodies. There is speculation among UN members that Moscow will be willing to permit the Eastern European seat on the UN's Economic and Social Council to go to an Asian country this year in return for Poland's election to the Security Council. Moreover, high-ranking UN Secretariat officials and many UN members believe the past practice of relegating Soviet bloc candidates to lesser UN offices has become inappropriate.

Security Council

Of the three openings on the Security Council, the seat now held by Japan is considered by many UN members to be allocated to "Eastern Europe" although Greece, Turkey, Yugoslavia, the Philippines, and Japan have occupied the seat since 1950. No strong candidate to oppose Poland has yet officially been announced. The present relaxed atmosphere may lead many members to support Poland and may also have dissuaded other UN members from seeking the office. Greece, thought to be a likely candidate, is reluctant to run. Council elections may be deferred for several weeks to clarify the situation.

Ecuador will replace Panama in one of the two seats normally assigned the Latin American bloc. With Ghana's withdrawal as a candidate, Ceylon is virtually assured election to the council to replace Canada in the Commonwealth seat.

Economic and Social Council

Four of the six vacancies on the 18-member Economic and Social Council (ECOSOC) are uncontested, but the rivalry between India and Japan for Pakistan's seat has split the Asian-African bloc. New Delhi maintains that Pakistan's seat is normally considered assigned to the Commonwealth and has spread the rumor that Japan is running for the Eastern European seat and not the Asian.

There is speculation that the Soviet bloc, in an effort to curry votes for its other candidacies, is willing to forego the election of a satellite to the council this year--permitting both India and Japan to be elected to ECOSOC.

Giving an Asian a seat normally accorded a satellite would ignore the principle of geographic distribution, a precedent the Soviet bloc could exploit in future UN elections. 25X1

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## PRIVATE OWNERSHIP OF LIVESTOCK BANNED IN SOVIET URBAN AREAS

Private ownership of livestock in virtually all urban areas of the Soviet Union is to end in October. The regime evidently feels confident that such measures--unthinkable four years ago when incomes were lower and livestock products less available in the cities--will not evoke serious dissent.

Under a mid-August decree in the Russian Republic (RSFSR), and earlier orders in Kazakhstan and the Ukraine, urban dwellers must sell their cattle to collective or state farms at prevailing prices by 1 October of this year. Failure to do so will bring confiscation with compensation at 1958 state procurement prices. An Armenian decree simply forbids the further breeding of privately owned live-

stock by citizens in towns and settlements.

At the June central committee plenum, Khrushchev decried the evidently widespread practice of fattening urban livestock on bread purchased in state retail outlets. Remarking that it would be impolitic to raise bread prices to make this habit uneconomical, and infeasible to lower meat prices because of the high cost of production, Khrushchev suggested that laws prohibiting ownership would remedy the situation.

The elimination of private ownership of livestock in both the urban and rural areas has long been an aim of the regime. State farm workers now are being forced to sell their livestock



PARENTS' DAY

Urbanites visiting their livestock on Sunday at state farms.

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to the farms in the next two or three years, while collective farmers are being "encouraged" to do so. Peasants on several leading collective farms such as Kalinovka--Khrushchev's favorite--have already sold their cows to the collective farm, and the farm has guaranteed to sell

milk to the farmers. Eager local officials have tried to force the pace of the program in some cases, but Khrushchev, aware of the peasants' opposition, has warned against coercion and has called for a greater educational effort in furthering this program. (Prepared 25X1 by ORR)

## PEASANTS DISTRUST NEW POLISH AGRICULTURAL PROGRAM

A full-scale campaign is under way in Poland to overcome peasant reluctance to participate in the new agricultural program. On a number of recent formal occasions such as the Congress of Agricultural Circles and a Conference of District Secretaries and Agricultural Activists, party First Secretary Gomulka appealed to the peasants to join the new agricultural "circles"--formerly voluntary self-help peasant groups--which the state plans to use to administer the mechanization of farm operations during the next seven years. To allay peasant distrust, Gomulka has repeatedly promised that no one will be forced to join the circles. However, the party may have alienated peasants to some extent by its use of rural party activists to persuade peasants to join.

Implementation of this program is of great importance to the regime because of the low level of Polish agricultural mechanization--far less than East Germany or Czechoslovakia--and because of what Gomulka has recently called "a not very favorable year in agriculture." Targets for the first year of the Seven-Year Agricultural Plan (1959-65) have not been achieved, making the plan goal of a 30-percent increase in agricultural output a virtual impossibility.

Outstanding in this situation is a decline in production of livestock feed, which has cut state procurement of meat, jeopardized the country's trade position, and caused the regime to institute "meatless Mondays." The latter is a most unpopular move which has strengthened the general feeling of the urban population that the regime has made little significant improvement in the levels of living. This feeling in turn has generated more pressure on the regime to make more food available.

The regime will do its best to prevent a repetition of this situation and has hastily provided credits to existing circles for machinery purchases even before an agricultural development fund mechanism could be created. Tractors have been imported; others reconditioned and distributed as quickly as possible. Efforts are being made to improve the low quality of agricultural machinery produced in Poland, and the propaganda aimed at the peasant will probably become even more intense than now.

No matter how urgent the implementation of this program may be from the regime's viewpoint, the peasant will probably hang back for fear that membership in agricultural circles will be a step toward collectivization. The general sentiment has been

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expressed by one farmer who said, "State machines mean state peasants." According to the official Polish press, "One of the most important battles of our postwar period is now being

waged in the countryside.... The use of these simple forms of co-operation is to be the first grade in the school of socialism." (Prepared 25X1 by ORR)

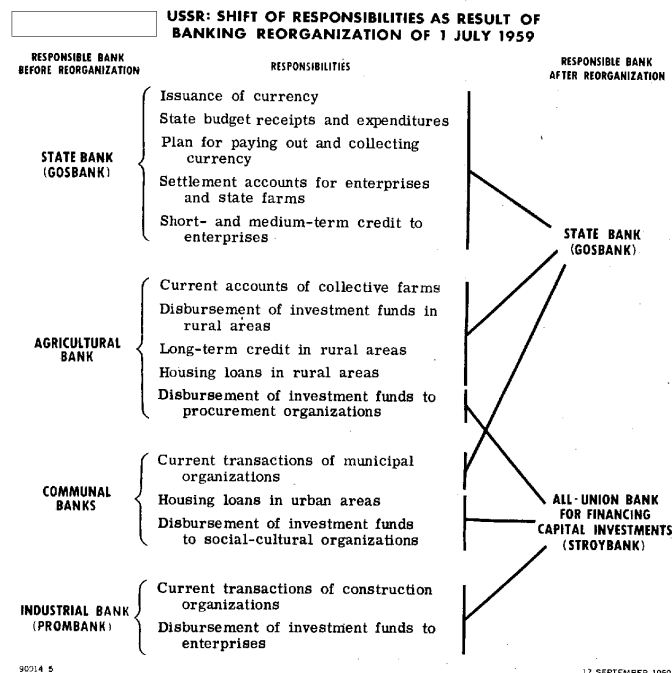
**REORGANIZATION OF THE USSR'S BANKING SYSTEM**

By a recent reorganization of the banking system of the USSR, announced on 1 July and scheduled to have been completed by 1 September, the Agricultural Bank, the Industrial Bank, and the Communal Banks were abolished and all banking operations consolidated into two banks: the existing State Bank (Gosbank) and the newly formed All-Union Bank for Financing Capital Investment (Stroybank).

increase managerial efficiency and create better incentives for rural labor have expanded monetary transactions of collective farms, giving rise to a need both for expanded banking facilities and for close supervision of local cash plans--i.e., the plans for paying out and collecting currency. The concentration of agricultural banking functions in Gosbank should result in more effective central financial control over the collective farm system, which lies outside the state enterprise

Gosbank, in addition to its previous operations, will now be responsible for financing formerly handled by the Agricultural Bank. Gosbank will also take over the short-term transactions of the abolished Communal Banks. Stroybank will be responsible for administering all investment outlays other than in agriculture and for extending all long-term credit to organizations and individuals except in rural areas.

Consolidation is a logical follow-up to the various changes instituted by Khrushchev for more efficient administration of the economy. Various agricultural reforms designed to



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system and heretofore has not been subject to ordinary financial controls.

The 1957 reorganization of industry and construction, which abolished the old ministerial administration of industry and created over 100 regional economic councils, has made it more difficult for the banking system to control financial operations at the local level. An audit carried out by the Industrial Bank in 1958 revealed that 29 of the 89 regional economic councils examined had violated regulations concerning the distribution of capital investment funds. The newly formed Stroybank may have the necessary authority to deal more effectively with instances of this sort.

At two major conferences of State Bank officials held last spring, it was pointed out that the major concern in the past has been the problem of balancing cash outlays and cash receipts for the country as a whole, and insufficient attention has been given to balancing the cash outlays and receipts of local areas. Outlays have exceeded receipts in many cases, and unwarranted demands have been made on central resources. To remedy this situation, measures have been taken to make the cash plans more detailed and to ensure supervision not only by Gosbank but by governmental and party organs as well. It is possible that the reorganization may have some temporary disruptive effect on the banking system at local levels.

(Prepared by ORR)

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**PHILIPPINE PRE-ELECTION OUTLOOK**

The Philippine senatorial and provincial elections on 10 November have been complicated by the addition of a third ticket in the contest for the eight seats at stake in the 24-man Senate, and by continued maneuvering both within and among the various parties. No major policy issues are at stake in the

election. The Garcia administration is under attack, however, for inefficiency and corruption and is trying to deflect criticism through a nationalistic "Filipino First" campaign theme.

Although there is widespread popular dissatisfaction with President Garcia, any prospect

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that the election outcome could significantly weaken his well-entrenched Nacionalista party has been lessened by the collapse of the tenuous coalition between the opposition Liberal and Progressive parties.

Opposition unity efforts foundered over rival ambitions among the party leaders and the fears of Philippine Vice President Macapagal, in particular, that concessions to the Progressives would cost his Liberal party its primary opposition role. The Progressives now have put forward, under the banner of a "Grand Alliance" with anti-Macapagal Liberals and anti-Garcia Nacionalistas, a third-force senatorial slate with strong individual candidates.

The alliance, however, lacks organization, funds, and poll inspectors, and its cohesiveness is questionable because its Liberal and Nacionalista followers have neither resigned nor been expelled from their respective parties.

The Liberals, despite a weak senatorial slate, express optimism that the elections will improve their chances for winning the 1961 presidential election. They believe that effective campaign attacks on government corruption will channel votes their way, because of the superior Liberal party machinery, and that the new alliance will fade out of the picture.

The Nacionalista party, however, retains significant advantages, including the dispensing of government "pork barrel" funds, which will help overcome administration unpopularity, particularly on the local level. A major trouble area for the Nacionalistas is the southern province of Cebu, where two influential Nacionalista politicians--one of whom is a "guest" senatorial candidate of the Liberals--have ended their long feud to combat Garcia in their own province. They are encouraging a rapprochement of the Liberals and the "Grand Alliance," to which they claim they could bring decisive support in the southern Philippines.

**POSSIBLE CRISIS IN INDONESIA**

A serious government crisis may develop in Indonesia as the result of conflict between the army and high-ranking leftist civilians. Although the army's position still appears strong, further development of the situation depends largely on the attitude of President Sukarno.

Difficulties began when Attorney General Gatot Tarunamihardja attempted to reopen a corruption case against army headquarters officers. General Nasution, army chief of staff

and concurrently minister of defense, claimed the case was closed and placed Gatot under house arrest on 9 September on charges of "impairing the good name and prestige of army leadership." The army has announced that its investigations and the arrest of 15 other individuals connected with the attorney general on 11 and 12 September indicate "an underground network within state security instruments."

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there is mutual distrust between the two groups, and continuing intragovernment conflict can be expected.

The Indonesian Communist party, which is eager to discredit army leadership and stands to gain from any development that weakens the army, has so far made no comment on the arrests. Its silence probably indicates fear of army retaliation if it should make a statement.

After many postponements, the party convened its sixth national congress in Djakarta on 7 September. Sukarno's laudatory remarks at the closing session of the congress on 16 September countered to some extent the army restrictions which had early prevented the Communists from deriving any significant publicity from the meeting. Sukarno, despite his present policy of giving primary support to the army, continues to rely importantly on the Communists for the implementation of his "guided democracy" program and in the preservation of his own paramount political position.

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The issues at stake--corruption and an alleged plot against the army--are far from settled. Corruption is increasing in both army and civilian life.

Leftists now holding high-ranking posts in the Indonesian Government are chiefly individuals who had had connections at some time with Partai Murba, the so-called "national Communist" party.

## CAMEROUN

Terrorist attacks are continuing to pose a serious security problem in the southwestern area of Cameroun and, with the UN General Assembly now in session, may erupt in other parts of the French-administered UN trust territory. The attacks are almost certainly inspired by Communist-supported exiled leaders of the extremist wing of the outlawed nationalist movement, the Union of the Cameroons Population (UPC), who are engaged in a last-ditch effort to induce the UN to order and supervise new elections in Cameroun before it becomes independent.

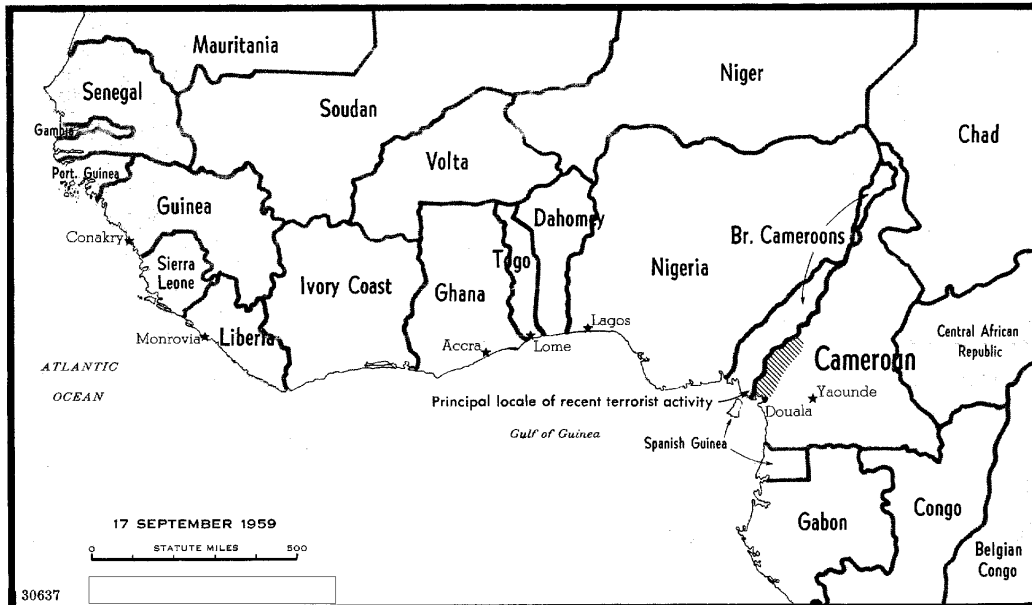
Independence now is scheduled for 1 January 1960. The UPC extremists claim that the present government of moderate Prime Minister Ahidjo, which will lead the territory through the first stages of independence, is manipulated by the French.

Since early August, the upsurge of terrorist activity, first noted last June, has been most marked in two regions bordering on the British Cameroons where, according to French authorities,

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the terrorists take refuge. Catholic and Protestant mission stations have been attacked, native huts have been burned, and numerous assassinations as well as sabotage against bridges, telegraph lines, and roads have been reported. On 14 September armed terrorist groups again struck in the seaport of Douala, where no attacks had been reported since July.

More disturbing than these incidents to Camerounian and local French authorities, however, was their recent verification that the terrorists now possess at least some military weapons of foreign origin. Security forces operating against the terrorists last month captured some automatic pistols and ammunition manufactured in Czechoslovakia. The Ahidjo government, which has repeatedly denounced Guinea and Ghana for their support of the exiled UPC extremist leader Felix Moumie, presumes these weapons have come, via the British Cameroons, from stocks given to Guinea by the Czechs last spring.

Despite the continuing capability of the terrorists to foment local disorders, the Ahidjo government does not appear to be losing any appreciable amount of popular support and is probably capable of controlling the situation at least for the present. In this it is aided by the decision of an apparently large number of UPC adherents and other relatively extreme nationalists in Cameroun to reject the Moumie faction's strategy of creating chaos and to pursue their ends through legitimate political activity.

On the international level, the Ahidjo regime will be subject to criticism by African nationalists at the United Nations this fall, but there is no real chance that the assembly will reverse its decision of last March against the pre-independence elections demanded by Moumie and his allies.

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**ITALY FACES SOMALI DEMAND FOR ACCELERATED INDEPENDENCE**

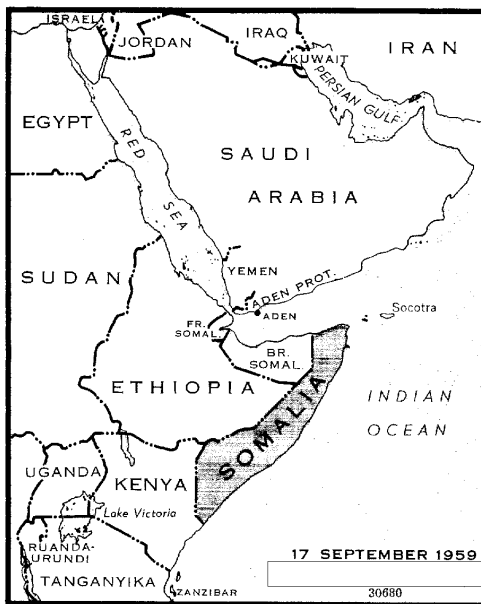
Rome has voiced no formal objection to the Somali Assembly's resolution of 25 August calling for an end to Italy's trusteeship in Somalia "as soon as possible," but the Italians can be expected to retain control until the scheduled termination date of 3 December 1960. The Italian administration of the territory shares the attitude of certain business interests which seem confident of maintaining Italy's primacy in Somalia by subsidizing the export to Italy of the territory's principal product, bananas.

While Italy intends to make a show of complying with Somali demands, the Italian administrator, Mario di Stefano, has taken the view that Somalia cannot survive without continued Western tutelage and material aid over an indefinite period. He feels that the key to maintaining Western influence is Somalia's dependence on Italy as a market for the banana crop, which accounts for over 60 percent of Somali exports.

Di Stefano thinks Somali leaders can be kept in the Western camp by judiciously diverting to their pockets a percentage of the profits of the Banana Monopoly, an agency of the Italian Government. Implicit in his argument is the fact Somali bananas are priced above the world market, and only a country such as Italy that is willing to buy the crop at an artificially high price is in a position to act as Somalia's mentor.

While Italy no longer seems to have any colonial pretensions

in the prewar sense, it nevertheless appears to be in no hurry to shed its financial burden in Somalia. Tentative Italian proposals for annual contributions to the Somali economy calls for \$4,000,000 from Italy, \$300,000 from Britain and \$2,700,000 from the United States. Italy's motivation appears to be to maintain a remnant of great-power prestige and to safeguard certain bureaucratic and business interests, mostly in connection with the banana trade.



The grumbling of the Italian consumer over the high price and poor quality of Somali fruit is unlikely to have any appreciable effect on Italian policy.

**SWEDEN AND NUCLEAR WEAPONS**

The reconvening of Sweden's Parliament next month will probably give new impetus to the five-year-old debate on whether to equip the Swedish armed forces with tactical nuclear weapons.

Sweden has planned facilities which could enable it to produce sufficient plutonium for initiating a nuclear weapons program within five to six years, once a decision is made

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to proceed with weapons development. Military leaders, the Conservative party, and certain Liberal party elements have strongly favored the step, but, despite their prodding, the Social Democratic government still hesitates to make a move for fear of the serious consequences it could have on party unity and on Sweden's internationally recognized neutral status. Influential women's groups in the party already have warned that a rift in the Social Democratic party might result if the government approves the acquisition of nuclear weapons.

The government is aware of the strong Soviet reaction to Switzerland's announcement last year that it was considering the acquisition of nuclear weapons for its armed forces and probably believes that Moscow might consider such a step by Sweden provocative. As long as the subject of nuclear weapons is under negotiation by the great powers, the government seems certain to use the talks to justify further postponement of a decision on what it regards as a painful issue.

Public opinion, however, is swinging in favor of a nu-

clear weapons capability. A survey taken in March revealed that 57 percent of those polled favored acquiring the weapons, as compared with 42 percent the previous September. The poll also showed that possession of the weapons would have a profound effect on the willingness of the Swedes to defend themselves against the threat of nuclear aggression. Previously the government was inclined to attach no special urgency to acquiring a nuclear weapons capability, but the morale factor seems to be altering this attitude.

The government probably hopes to be able to avoid a final decision until the party congress in May 1960, when a special committee report on the question is expected to be considered. In the meantime it may seek to placate the growing opinion favoring acquisition by a compromise proposal which would approve a modest nuclear weapons research program now, but would defer until after May a decision on the more basic and controversial question of equipping the armed forces with such weapons.

**LEFTIST DRIFT IN BOLIVIA**

Leftist attacks against the US-backed stabilization program in Bolivia have been gaining momentum since early this year, and now have assumed pronounced anti-US overtones. The Communists, who have fully exploited recent anti-US issues and incidents, have carried out a successful propaganda campaign against the foreign oil companies in Bolivia, the present petroleum code which favors these companies, and the sacrifices on the

part of both individuals and the economy required by stabilization practices. The Communists' success is partly indicated by their close association in current attacks on the government with radical elements in the ruling Nationalist Revolutionary Movement. (MNR).

President Siles, leading defender of stabilization against the left-wing opposition in the divided MNR, has apparently been gradually losing

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political support in recent months. A number of moderate MNR elements now appear to be joining the leftists in pressing for aid from the Soviet bloc for the National oil company, YPFB.

Meanwhile, the moderate-controlled lower house of Congress has passed a resolution similar to the one it adopted in September 1958 favoring the establishment of a diplomatic mission in Moscow. The MNR newspaper also continues to use the stabilization program as one of its favorite targets of attack. The chief of the MNR, former President Paz, whose announced objective is to reunify the party prior to the 1960 national elections, probably favors the leftist elements and their stand against Siles' policies.

Ambassador Strom believes that the leftist drift is alarm-

ing and, if unchecked, could create a political climate which would sabotage US-Bolivian cooperation. The Bolivian Government in recent weeks has shown little disposition to defend its position in the face of leftist pressure for Soviet credits and abrogation of the petroleum code. It may, in fact, use this development to bolster its efforts to obtain sizable US aid for YPFB.

Siles, who has again considered resigning in the face of leftist attacks, has advised Strom that he plans to organize a delegation to visit not only the USSR but the United States and Europe to investigate the possibilities of obtaining credits for YPFB. In addition, Foreign Minister Andrade has strongly implied that the government would take no action on informal Soviet proposals for equipment and technical assistance until after he explores US sources of assistance during his trip to the United States this month.

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**PART III**PATTERNS AND PERSPECTIVES**PROSPECTS FOR THE SOVIET CONSUMER**

The standard of living of the Soviet population, still low by Western standards, has been advancing steadily during the past seven years at a rate well above that of the United States, although the satisfaction of consumer demands continues to be subordinate to the expansion of industrial and military strength. The rapid growth of the total gross national product has been accompanied by an average increase since 1951 of 5 percent a year in per capita consumption. Although this rate will be somewhat lower under the Seven-Year Plan (1959-65), the Soviet consumer can still expect a major improvement in housing, shorter working hours, increased pensions and minimum wages, and a continuing sharp increase in the supply of durable consumer goods.

Since 1951

Highlighting the growth of consumption in the USSR since 1951 has been the rapid development of food processing and the expansion of output of such goods as television sets, electrical appliances, ready-made clothing, and rayon and synthetic fabrics. The diet of the average consumer has become more varied as the consumption of animal products--meat, fish, and dairy products--has increased in relation to the consumption of flour and potatoes.

Urban and rural consumers have shared about equally in these gains. Average real wages of urban workers and real incomes of collective farmers have gone up about 6 percent per year, according to American estimates. Prior to 1955 the gains of urban workers were achieved through reductions in retail prices. Since then, real wages have been

raised through wage reforms, increases in minimum wages, tax adjustments, and other devices. The established minimum wage of 225-260 rubles per month has been--since 1957--raised to 270-350 rubles per month.

Low-paid workers also received favored treatment when, in 1957, the exemption level on income tax was raised for single workers and workers with small families. Disposable incomes of urban workers were increased still further by the reduction of compulsory bond purchases in 1957 and their cancellation in 1958. Retired workers participated in the general gains when pensions were increased sharply in 1956. Finally, the length of the workweek was reduced from 48 to 46 hours in March 1956 and, during 1957-58, further reductions were made in some sectors of the economy.

Although the retail price reductions of 1951-54 benefited collective farmers, their major gains have come about as a result of the rapid growth in agricultural output, the increases in agricultural procurement prices since Stalin's death, and--before 1958--the increases in the share of collective-farm income distributed to members.

Although there has been a steady rise in real incomes since 1951, housing and certain other specific areas of consumption in the USSR were largely neglected until 1957. A series of programs, ranging from expansion of housing to efforts to catch up with the United States in per capita production of meat and milk, were initiated in that year to remedy some of the more glaring areas of deficiency. Additional consumer programs were introduced in 1958 and 1959, as the regime sought to relieve other, lesser

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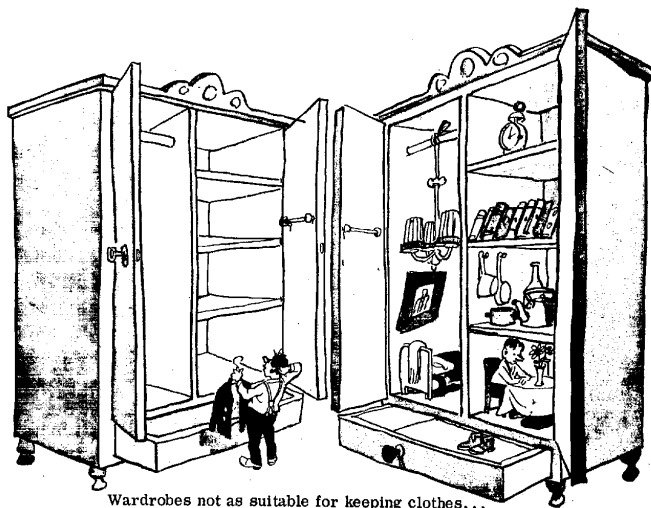
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sources of irritation to the consumer. For example, the supply of children's clothing, long a source of complaint, has improved noticeably; progress has been marked by the opening of a new store in Moscow specializing in this field.

To support the housing program, the output of furniture was stepped up in April 1958. As a result of some critical remarks made by Khrushchev at the June 1959 plenary meeting of the party central committee, the furniture industry is now emphasizing improvements in style and suitability and the elimination of unnecessary frills. It may accomplish these goals by shifting to the production of inexpensive copies of modern Western furniture.

Other measures adopted in 1959 to supply new or expanded services to meet consumer needs



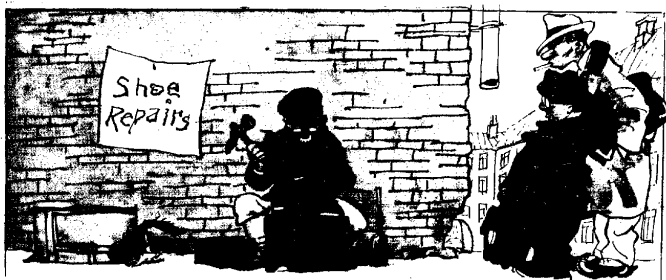
Wardrobes not as suitable for keeping clothes... as for keeping house.

KROKODIL 10 APRIL 1959

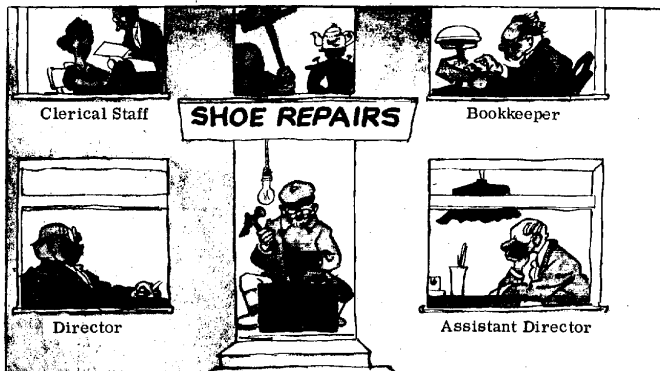
include better and broader restaurant services, expansion of facilities for repair of clothing and for rental and repair of household electrical appliances, and provision of consumer credit for installment purchases of certain consumer durables. Unlike the overly ambitious meat and milk goals, which are no longer being discussed, the objectives of these other programs are feasible, and serious efforts appear to be in progress to attain them.

Wages

Minimum monthly wages of workers and employees are to be increased under the Seven-Year Plan from the present level of 270-350 rubles to 500-600 rubles. This, plus increases awarded under the continuing wage reform program, is to boost average money wages 26 percent by the end of 1965. If, as the plan implies, retail prices are not to be reduced significantly, real wages of workers and employees will increase 3 to 4 percent per year. Although this is a lower rate



We must put an end to primitive handicraft service.



KROKODIL 10 APRIL 1959

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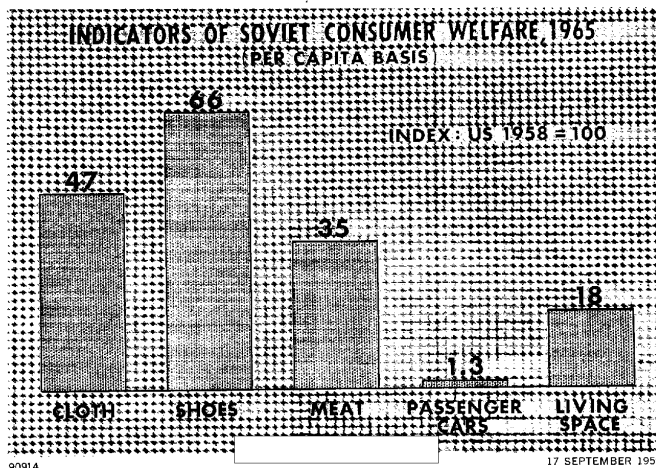
than that of the preceding seven years, the worker will benefit from further shortening of the workweek, and his disposable income may be increased by the promised abolition of the income tax, which now absorbs 8 to 10 percent of his income.

Moreover, pensions are to be increased sharply in 1963,

attained a level about equal to that of the United States--the substitution of animal products for starches in the diet will continue.

Other Consumer Goods

The Seven-Year Plan calls for a high rate of growth in consumption of durable consumer goods. There are to be large increases in furniture output--required to support the housing program--and a big rise in the production of labor-saving household appliances--an element in the regime's drive to increase the participation of women in the labor force. Following criticisms by Khrushchev, greater emphasis probably will be placed on improving the style and suitability of many durable goods.



with minimum monthly pensions being increased from 255-300 to 340-400 rubles. Incomes of collective farmers will also probably increase at a lower rate than during the preceding seven years because of the expected reduction in the rate of growth of agricultural output and because of an increase in the share of collective-farm income allocated to investment rather than wages. The gradual introduction of guaranteed monthly wage payments, however, now in the experimental stage at leading collective farms, should lead to steadier wages for the collective farmer.

Food

Expenditures on food are also expected to increase at a slower rate under the Seven-Year Plan, primarily because of the probable lower rates of increase in agricultural output. Although there will be little change in the total caloric intake of the consumer--Soviet caloric intake per capita has

Considerable underfulfillment of goals for production of radio and television receivers is anticipated because of the mushrooming defense demands in the electronics industry. Little increase is planned in passenger automobiles. Soviet leaders have stated that an automobile for each family is not a desirable goal for the Soviet consumer at present.

The Seven-Year Plan calls for a reduced rate of growth in consumption of clothing, textiles, and footwear, and the goals for cotton fabrics and sewn garments may not be fulfilled. Expansion of output of clothing and textiles is limited by the difficulty of increasing the output of natural fibers markedly. Although efforts to expand rayon and synthetic fiber production are meeting with some success, much greater progress than envisaged in the new plan will be required to restore past rates of growth in textile and clothing consumption. Greater attention to

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quality is planned, however, and the recent showing of Paris fashions in Moscow should stimulate demand for better styling.

Services

Consumption of services is expected to attain a more rapid growth during the Seven-Year Plan than during the preceding seven years, primarily because of an expansion of state outlays on housing, residential utilities, and education--the latter occasioned by the expected increase in the school-age population.

Housing

Housing is the major area of consumption which has the longest record of neglect by the regime. Housing space per capita had declined before World War II, and in the post-war period--prior to 1957--housing construction was barely sufficient to accommodate increases in the population.

Beginning with the 1957 housing decree, however, the regime has tried to increase the supply of housing to the Soviet consumer, with the goal of eliminating rationing of urban housing by about 1970. Under the program, housing space for workers and employees is to increase by 1965 to 87.2 square feet per capital, as compared with an estimated 61.3 square feet in 1958. Although this goal for 1965 remains well below the Soviet norm of 96.8 square feet per person, it would significantly increase the amount of housing available to the urban population. The plan to shift away from construction of multifamily apartments to one-family units with kitchens and bathrooms should prove to be an additional boon to consumer welfare.

Because it has affected much of the urban population personally, progress so far has been sufficient to instill hope

in a populace long cynical about prospects for housing improvement. There are few urban consumers who do not know of persons who have obtained a new apartment,



You must grow and grow to reach my height.

KROKODIL 10 JULY 1959

or at least have good prospects of getting one in the near future.

Most of the increases in housing space will take place in urban areas. On collective farms, where the housing problem is primarily one of quality rather than of quantity, new construction apparently will be devoted largely to replacement of existing substandard dwellings. Nearly half of the housing to be constructed will be for private ownership, financed through state loans, private savings, and the donated labor of the owner-builder.

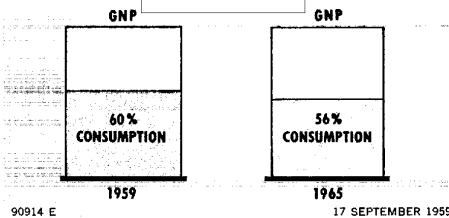
The program planned for the Soviet consumer in the next seven years should considerably

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improve his lot as well as enhance the prestige of the regime in his eyes. He will have better housing and prospects for private bathroom and kitchen facilities. Furniture will be

**USSR: CONSUMPTION AS PERCENT OF GROSS NATIONAL PRODUCT**

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cheaper and more serviceable than in the past, and electric

appliances in an increasing variety will be easier to purchase as consumer credit plans become more extensive. Communal recreational facilities, theaters, clubs, and stadiums will be built in an increasing number to provide an outlet for the additional hours of leisure planned for the Soviet worker by the regime. Clothing will be more stylish, more plentiful, and of better quality.

Over-all, the Soviet consumer in 1965 will be considerably better off than in times past and largely unaware that his share of the national product had actually decreased during the Seven-Year Plan. (Prepared by ORR)

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**DRIVE FOR SOCIALISM CAUSES PROBLEMS FOR EAST EUROPEAN REGIMES**

The accelerated drive of all the East European satellites except Poland to "achieve socialism" by 1965 has created a number of serious problems for the various regimes. In Czechoslovakia, East Germany, and Hungary, there have been popular reactions against elements of the program, while in Bulgaria and Hungary ambitious goals and harsh methods have fostered differences and controversies within the parties themselves.

**The Drive to Socialism**

None of the satellites can yet claim to have formally created in Marxist terms a "socialist society"; i.e., a society in which, among other things, the state has total control over the

principal means of production in industry and agriculture has completely defeated the bourgeoisie and has removed virtually all features of capitalism. Bulgaria and Czechoslovakia are already well on the road to satisfying these necessary Marxist-Leninist requirements. The other satellites are not so far advanced, but all except Poland, which lags far behind, appear to be scheduled to "achieve socialism" around 1965. Once this has been accomplished, the satellites will presumably be able to begin the "transition to communism," a higher phase of development only entered into by the USSR in 1938.

Hungarian party ideologist Gyula Kallai indicated last May

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that the present drive in the satellites would, among other things, involve educational and legal reforms, the total socialization of the economies (including agriculture), and an ever-increasing role for the Communist parties through such "public organs" as the trade unions and "comradely courts." Measures to achieve these goals have already been put into operation in Hungary and some of the other satellites.

The increased militancy of the regimes' programs is placing greater responsibility on the party apparatus. The leaderships have expanded agitprop programs and have exhorted party workers to expand

**PRODUCTION SPEED-UP**

"You can take care of the assembly in transit, Comrade Kovace; the main thing is to get the shipment out on time."  
Ludov. Matysi (Budapest)

their activities in order to ensure the fulfillment of goals. The speedup, however, has stimulated opposition among party members who dispute the feasibility of the goals and the advisability of the methods and has exposed shortcomings in local and regional party organizations. Furthermore, despite notable economic successes (including a rapid growth of industrial production), present policies will permit only very gradual increases in living standards and demand greater efforts on the part of workers. As a result, popular dissatisfaction may increase.

Bulgaria

The Bulgarian regime, the most militant in the satellites, is experiencing difficulties with its overly ambitious economic program for 1959 which will prevent fulfillment of the original "great leap forward" goals for this year. In order to encourage greater party effort to meet these goals, the regime is seeking to create an atmosphere of crisis. It is also making efforts to counter serious party opposition which has arisen not only in local organs but also in the very top echelons.

According to the regime's own admission, party elements have "sought to bypass the central committee and the politburo" and have "attempted to undermine party unity." They have criticized the "great leap," claiming that it is unrealistic in terms of Bulgaria's capacities. Even certain of the more reliable cadres are--according to the regime--"afraid of difficulties" and are "holding back."

Local party weaknesses are also revealed by repeated criticism of shortcomings in regional party work connected with agriculture. On 31 July the regime singled out a regional government official for severe criticism--an action probably dictated by a desire to intimidate other regional committees and to encourage them to greater efforts.

Recognizing that dissident elements have touched on a most sensitive chord, party leader Zhivkov, the progenitor of the "great leap," has sought to demonstrate that Bulgaria's drive is an application of directives laid down at the Soviet 21st party congress in January 1959, and that the party membership is totally involved and committed to the leap. As a result, several middle-level party figures may be ousted in order to bring home the need

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for greater party effort and support of over-all policies. Plan adjustments and personnel changes, if any, will probably be discussed and clarified at a series of scheduled party plenums in late 1959 and early 1960.

Hungary

In Hungary, party controversies have centered on the method of implementing policy. The regional press has acknowledged that local party organs are weakened by "open intrigue and dissension." One Hungarian regional paper lamented the general lack of confidence in party members, but found this understandable in terms of the "bourgeois self-complacency, arrogance, and ambition of individual party members."

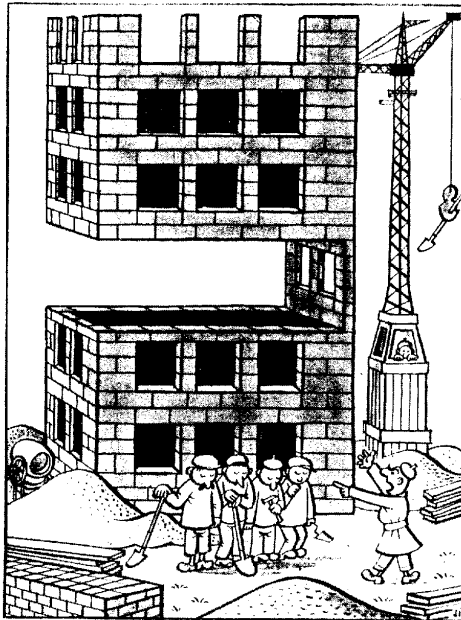
Reported differences in central committee plenums of late 1958 and early 1959 over the speed and method of agricultural socialization may be rekindled this fall, largely as a result of demonstrated organizational weaknesses in the collective sector and shortcomings in the local party organizations. Party chief Kadar may seize on the party's organizational weaknesses as an excuse to ease unreconstructed Stalinists out of positions of responsibility.

General peasant recalcitrance and reluctance to engage in collective farm work has prevented effective operation of certain of the collectives formed during last winter's drive. In addition, there have apparently been several isolated cases of peasant unrest and violence during the past few months. These factors, coupled with shortages of agricultural machinery, appear to have prompted Budapest's recent emphasis on "consolidation" rather than on rapid expansion of the collective sector. It is also possible that those party leaders who prefer a more gradual approach to collectivization

have been encouraged by Khrushchev's endorsement of the "go-slow" approach to agricultural socialization in Poland.

Czechoslovakia

There has been no threat to the stability of the party in Czechoslovakia, but there is evidence that disagreements have existed over questions of the role of the MTS, mergers of collective farms, and educational

**HOUSING SHORTAGE**

"Don't attempt to deny it. Monday you shirked."  
10866 (Hottelova)

reform, and that such disagreements led to the removal early this year of the minister of agriculture and the Slovak regional commissioner for education and culture.

The Czechs have also been faced with difficulties in getting the national committees--recently given new agricultural, industrial, housing construction, and labor-recruiting responsibilities--to carry out their responsibilities effectively.

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The regime's efforts to achieve expanded industrial production have met with success, but there have been failures in other areas. These have been largely ascribed to the weakness of the local party organs, which have been unable effectively to mobilize workers. Party agitprop work has been incessantly directed toward strengthening organizational work in the local areas, but with little noticeable success.

Efforts of the regime to increase labor productivity and to reduce labor costs early this year ran into worker resistance. Upset by wage adjustments and norm increases, workers staged protests in several factories. While such protests probably had little direct economic effect, the regime may have learned its lesson and may adopt a more cautious attitude in the future.

East Germany

In East Germany, party boss Ulbricht has committed the regime to continuing rapid industrial growth--a course which imposes strains on all elements of the populace. As a result, popular restiveness appears to have increased in recent months. There have been scattered reports of antiregime demonstrations by farmers and work stoppages in industrial plants. There is, however, little possibility of any serious uprising.

The regime suffers from a serious and general manpower shortage made more critical by the flight of essential intellectuals, technicians, doctors, and skilled laborers to the West. Through incentives, Ulbricht is seeking to obtain greater labor effort from various sectors of the population. With a view to submerging individual malcontents in organizations which can be controlled by the regime, he has launched

a campaign to enroll workers in socialist brigades or so-called socialist work communities.

With a view to ensuring complete loyalty to himself and to his programs, Ulbricht has conducted a continuing purge of government officials and has installed new and presumably more vigorous replacements. The recent public recantations of Kurt Schirdewan and Fritz Selbmann should strengthen Ulbricht's party position.

Rumania and Albania

In Rumania and Albania, there have been local party problems, in part connected with the drive for socialism. The regime programs--although repressive in the political field--have not yet stimulated increased labor discontent or popular unrest. Rumanian efforts have been directed toward strengthening local party organizations in the countryside, and ensuring control of urban workers through mass organizations. Regional and local party organs have been publicly scored from time to time for "formalism" and a lackadaisical approach to their problems, while the people's councils have been charged with apathy and a cavalier attitude toward local goals. Such indifference in lower party and government echelons could retard the attainment of regime goals.

Albania, the most backward of the satellites, is particularly handicapped by a lack of trained cadres and an intelligentsia. It is also hampered by indifference and organizational weaknesses; mass organizations and lower party units have been especially criticized for shortcomings in implementing policy decisions. Nevertheless, with extensive Soviet and satellite assistance, Albania has been able to maintain a high rate of economic development.

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The Outlook

The various problems which the satellite regimes have encountered in the political and economic sectors have not threatened the stability and security of the regimes, but they may lead to some easing of pressures on the populations and selected cutbacks in the more highly optimistic production goals. Rumania has already made widespread wage, price, and pension adjustments which should be of benefit to most urban workers. Czechoslovakia has reduced its agricultural production goals for 1960.

The Chinese Communist announcement of a downward readjustment of 1959 targets may have repercussions in Eastern European parties, particularly the Bulgarian. These cuts may weaken the position of those high-level East European party members, particularly those with Stalinist proclivities, who had found Peiping's "great economic leap" interesting and its enthusiasm potentially useful as a stimulus. Concomitantly, the proponents of more moderate policies may have been strengthened.

Khrushchev's implicit sanctioning of Poland's unique "road to socialism" last July may also have some effect on future satellite policies. Khrushchev's remarks in Poland, which emphasized that each "socialist" country must "build socialism" with due consideration for "national, cultural, and ideological peculiarities," were not intended to be a restatement of the now-discredited concept of "many roads to socialism," and presumably were directed specifically only to Warsaw. Nevertheless, such comments, unless counteracted by more explicit Soviet guidance, may create confusion within the satellite parties.

Khrushchev's emphasis on "national peculiarities," coupled with his endorsement of Gomulka's go-slow approach to agricultural socialization, may be interpreted by moderate party elements in the other satellites as an endorsement of their own positions. This, in turn, could increase pressures for a readjustment of satellite policies along a more realistic basis.   
(Concurred in by ORR)

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## WORLD BANK MOVES TO STRENGTHEN AID TO LESS-DEVELOPED COUNTRIES

Finance ministers of 68 non-Communist nations meeting in Washington from 28 September to 2 October as governors of the International Bank for Reconstruction and Development (IBRD)--or World Bank--are expected to favor the American proposal for a \$1 billion International Development Association (IDA) to help meet the sharply rising needs of the less-developed countries for financial assistance. In a concurrent meeting of the International Monetary Fund (IMF), attention will probably be directed to the removal of remaining exchange restrictions against the dollar, particularly in Western Europe. Action along these lines would tend to ease the United States' substantial payments deficit and gold losses.

The IDA Plan

The IDA would seek to reduce critical deficiencies of development capital in economies embracing over one billion people outside the Sino-Soviet orbit. As proposed, it would supplement IBRD lending with long-term loans at lower than present IBRD rates of interest and repayable partially in local currencies.

All IBRD members would make contributions proportionate to their IBRD subscriptions, which roughly reflect their eco-

nomie and financial capabilities. Twenty percent of the contributions would be made in gold or convertible currencies and 80 percent in national currencies--of which an additional 30 percent would have to be made convertible on demand by the IDA unless a waiver were granted. There is a provisional arrangement for the entire contributions of the industrial countries to be made convertible--thus reducing relatively the aid drain on the United States as compared with most other industrial nations.

Awareness of the IDA proposal will probably reduce pressures in the UN for an alternative approach through a Special Fund for Economic Development (SUNFED)--opposed by the United States as vulnerable to Soviet exploitation and as of questionable financial soundness.

Plight of Less-Developed Areas

A long-term decline in foreign private capital and in exchange available to less-developed countries in relation to requirements has persisted since World War II, as these countries have greatly stepped up imports to meet demands for rising living standards. Post-war assistance from international lending institutions and directly from industrial countries has contributed

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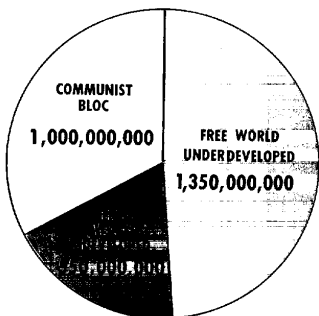
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substantially toward reducing capital and foreign exchange deficiencies, but these contributions are inadequate to support generally acceptable rates of growth.

**WORLD POPULATION**  
TOTAL 2,900,000,000



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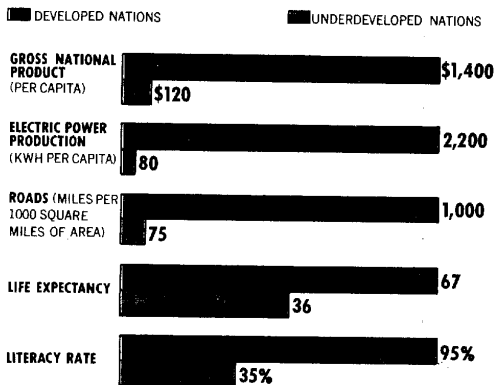
With inadequate domestic savings and generally persistent inflation, the nonindustrial countries are now no more able than they were 30 years ago to finance their rising imports out of their own earnings. Exports of less-developed countries--exclusive of petroleum producers like Venezuela--have risen by less than 20 percent in volume since 1928, as compared with an increase of about 60 percent in total world trade--largely because of substitution of synthetics for natural raw materials, greater agricultural self-sufficiency among industrial nations, and the dislocating effects of depression and war on trade. As a result, the export surplus of \$1 billion which these less-developed countries enjoyed in 1928 has become an import surplus of over \$5 billion in recent years.

During the 1957-58 recession, moreover, curtailed imports of raw materials at lower prices by industrial countries cut monetary reserves of less-developed countries by over \$2 billion. This deterioration contributed importantly to financial difficulties in Malaya, Ceylon, Indonesia, and all Middle Eastern countries except Iran. Its effect precipitated action in Brazil, Colombia, Bolivia, Chile, and Peru to resort to emergency foreign financial assistance. Modest recovery in their export earnings with improved business conditions in industrial countries in 1959 is no indication that the less-developed countries have reversed the long-term downward trend in their export earnings capabilities.

Capital Imports

The flow of foreign private capital, retarded by persistent inflation and threat of expropriation in less-developed countries, has by no means kept pace with the explosive growth in their demand over the past 30 years.

**PROBLEMS OF UNDERDEVELOPMENT IN THE FREE WORLD**



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In 1928, leading industrial nations other than Germany--then temporarily a capital importer--provided \$1 billion, which was considered relatively satisfactory. A sharp falling off during the

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depression became a substantial net loss with large-scale repatriation of funds at the advent of World War II. Private foreign lending has recovered slowly since the war and has reached its position of the late 1920s only recently.

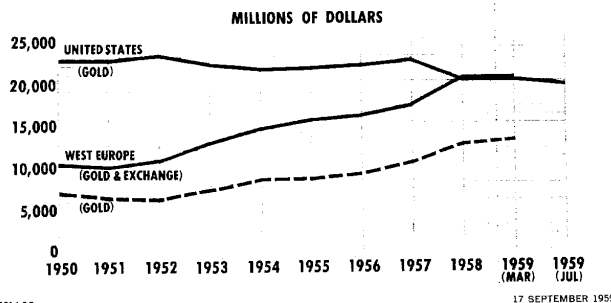
Moreover, the proportion of this capital flowing within industrial nations, rather than out to less-developed nations, has increased substantially at the same time as the "revolution of rising expectations" has spread in nonindustrial areas. Meanwhile the value of world exports has about trebled since 1928, and the amount of foreign private capital now received by the less-developed countries finances only 6.7 percent of their imports today, as compared with 14 percent earlier.

Governments, particularly those of industrial countries and notably that of the United States, have attempted increasingly since 1950 to supply this large deficiency in development funds. Selection of criteria for determining the adequacy of total international capital available for development purposes is highly controversial, depending on the point of view of the estimator.

an increase of from \$1.125 billion to \$2 billion over total amounts currently available annually could be absorbed effectively by less-developed countries to achieve an acceptable general annual rise in per capita income of from 1 to 2 percent. There is little expectation that the flow of private capital will increase sufficiently to fill the gap in the near future.

**Western Europe's Foreign Aid**

Such aid as has gone from industrial countries to the less-developed areas has so far come to a disproportionate extent from the United States. In commenting on American gold losses of \$3 billion and protracted pressure on the dollar in 1958-59, the London Economist recently pointed out that American "trade earnings are not sufficient to finance military outlays of \$3 billion as well as grants and loans of over \$2.5 billion, and it is certainly reasonable to expect other industrial countries to take a bigger part in international aid for poor countries."

**GOLD AND FOREIGN EXCHANGE HOLDINGS**

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In 1958 ten Western European governments extended bilateral economic assistance to less-developed countries amounting to less than \$1 billion--of which a substantial portion was short term--compared with \$1.521 billion in longer term loans advanced by the United States. Underlying their ability to raise their foreign aid to this level--almost twice the 1954-1956 average--was a striking improvement in their economic and financial position reflected in a rise in their gold and foreign exchange reserves by 45 percent to over \$21 billion from 1954 to 1958. These countries direct 90 percent of their aid to their own respective spheres of

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influence. Only 10 percent of United States aid, by contrast, goes to Latin America, which Europe appears to consider a particular responsibility of the United States.

A further imbalance in the financial impact in the provision of aid as between the United States and Western Europe arises from the failure of Western European nations to provide adequate longer term financing of their capital goods comparable to that extended by the Export-Import Bank of the United States. Partially as a result of this inadequate financing, over half of Western Europe's gold and dollar gains of \$3 billion in 1958 was obtained by draining off from other countries gold and dollars paid to them by the United States for its imports, which remained at a high level. In effect, the United States thus financed Western European exports through its own gold losses.

These gold losses serve to highlight Western European countries' tardiness in removing dollar exchange restrictions and discriminatory quotas on United States exports remaining on about one fourth of their import trade. An end to the dollar shortage, recognized in their move last December to permit free convertibility for nonresidents, eliminated further justification for these restrictions

and quotas--authorized under the IMF to protect balances of payments from the effects of United States competition during the postwar recovery. Most governments in Western Europe have recently taken some action toward removing these quotas and are generally disposed to take further steps. However, complete liberalization of trade and exchanges may be delayed, not only by domestic pressures for protection, but by defensive attitudes conditioned during the period of the dollar shortage and reinforced by its temporary recurrence for several important countries in the Suez crisis.

Prospects

Preliminary indications are that Western European nations will generally go along in establishing the IDA. Some of them have reservations and may seek amendments. France may cite its heavy assistance expenditures under the Constantine Plan for development in North Africa. Britain does not like the provision for repayment of hard-currency loans with soft currencies. It is probable, however, that prestige considerations involved in participating in a world operation to promote development and expectation of benefit for less-developed countries with which they have special ties will lead to agreement on the program without major alteration.

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