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WESTERN EUROPE BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

BRANCH WEEKLY

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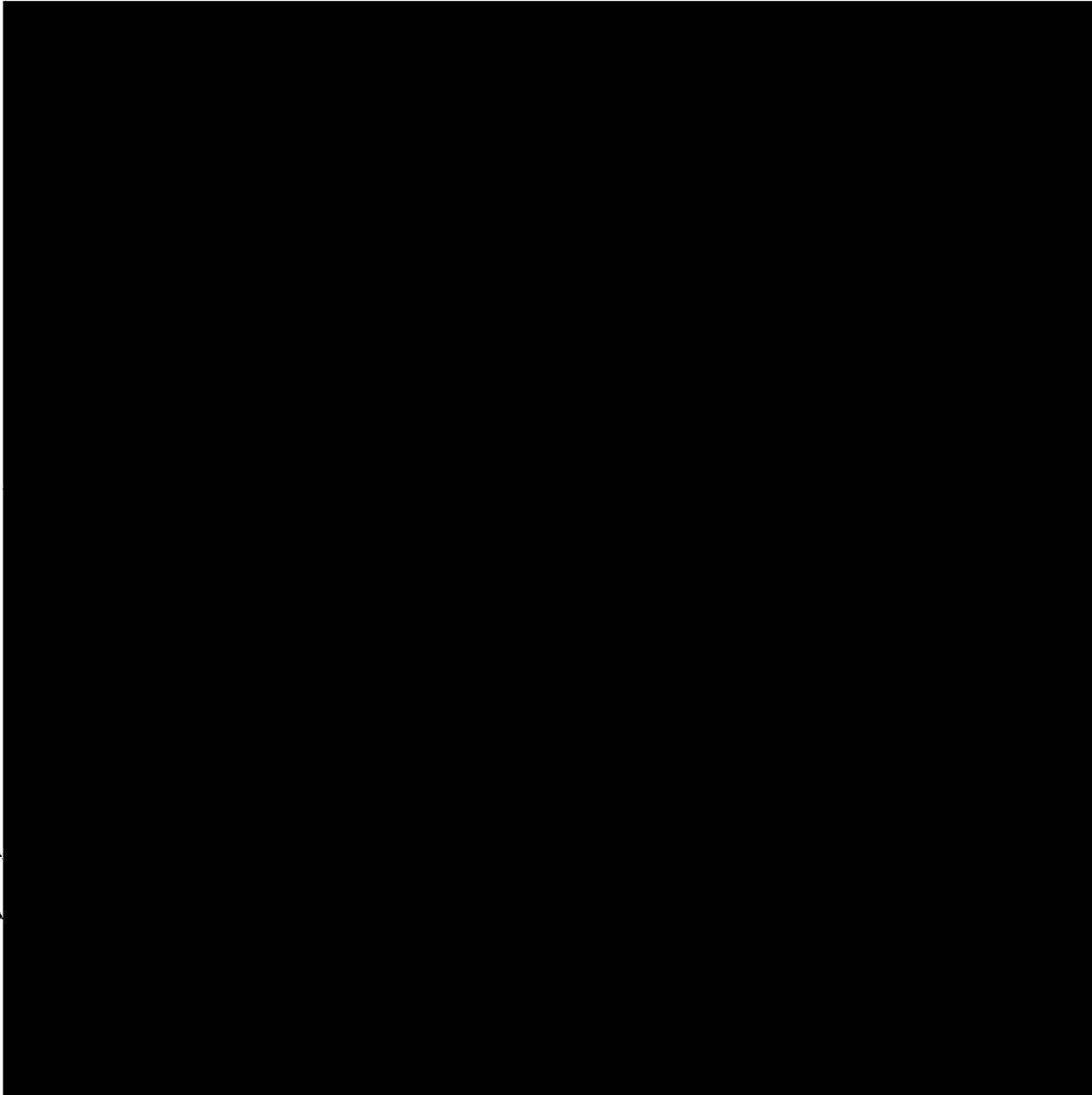
WESTERN EUROPE BRANCH

WEEKLY SUMMARY

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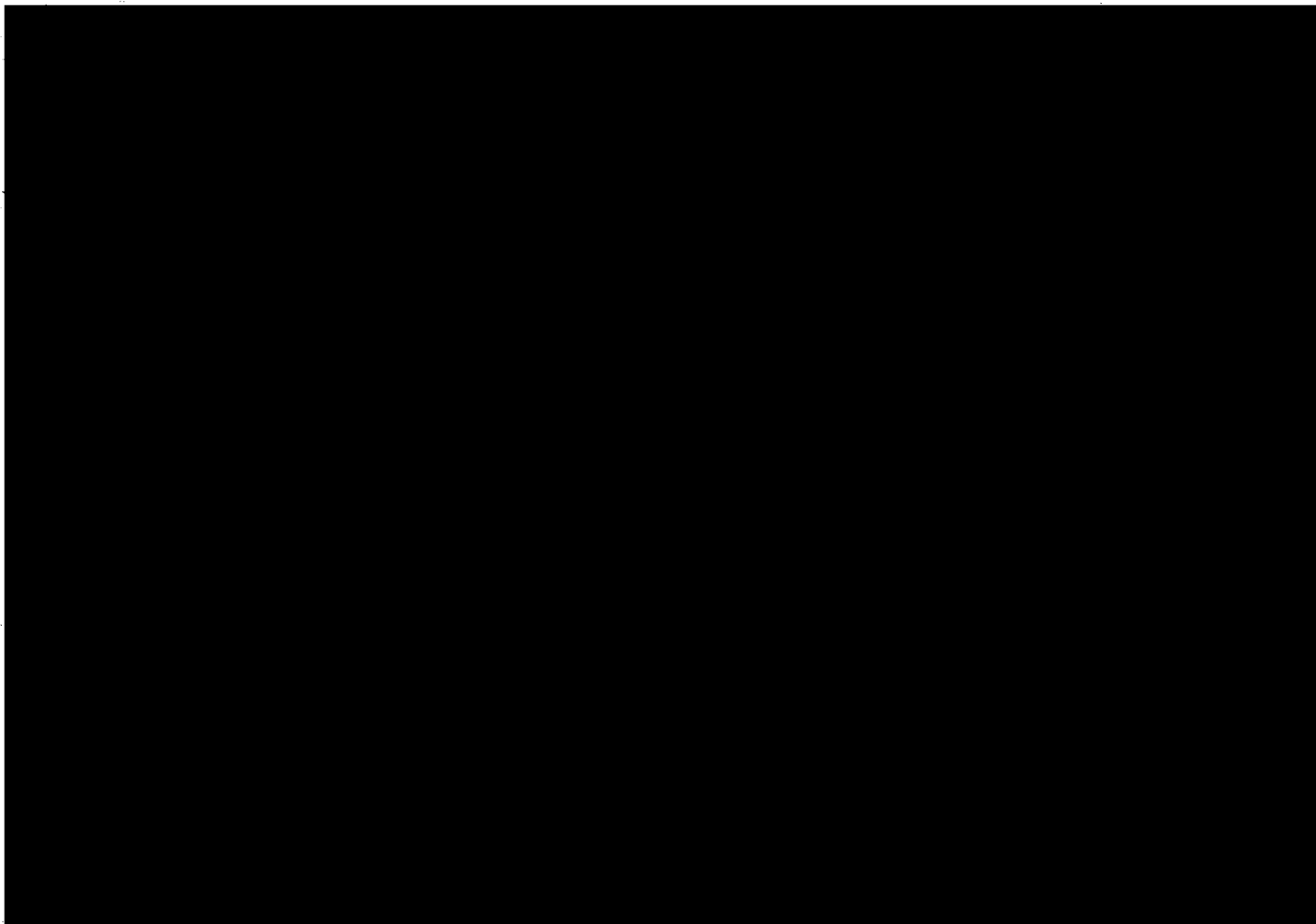
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AUSTRIA

A

Should an Austrian treaty be concluded, two questions will become paramount in Austria. These will be: (1) Austria's ability to increase its exports in order to pay \$150 million to the USSR within 6 years; and (2) the capabilities of Austria's future army to control internal security. The US will probably be called upon to ease the financial burdens inherent in both problems.

Payment of the lump-sum, probably the most difficult problem Austria will face, will require more coordinated and astute planning than Austrians have evidenced in their post-war history. Unless clearly and promptly discouraged, their reliance on US assistance could easily extend to a complete coverage of this sum. Otherwise, the Austrians must base their economic planning -- at least for two more years -- upon ECA assistance, and calculate an increased economic

potential only upon the sustained recovery accruing from the ECA program and from the economic improvements resulting from a termination of the occupation and other terms of the treaty. In such planning, all Austrian agencies and personnel concerned (regardless of political maneuvers) would have to coordinate their efforts; US advice, moreover, might prove of invaluable help to the frequently undertrained Austrian economists and a beneficial restraint to ambitious politicians.

The capabilities of the future army will rest not only upon its organization and training, but also upon its equipment. Limited by the treaty in its own manufacture of arms, Austria will have little funds available for international purchases. The lack of equipment, which can only be remedied by outside assistance, may be a more serious threat to Austrian security than the present inability of the coalition parties to reach an accord on principles and details of the future army organization.

FRANCE

A

The Government's indifferent progress toward realizing the objectives of the Franco-Italian customs and economic union negotiated in 1948 is not likely to be improved materially in the near future.

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Inasmuch as both steps must be taken and the Government proposes at this stage to take the next several months to weigh their relative merits, it appears that the Government is still divided on basic policy toward freedom of trade, despite the influence of economic liberals such as Foreign Minister Schuman.

B

Dissension within De Gaulle's Rally of the French People (RPF) may be expected to increase as his popular appeal declines. This decline has already caused the RPF to revise somewhat its previous role of a crusade to "rally" a divided people, and it now tends to assume instead the characteristics of a political party, including

that of intra-party squabbling. In order to improve the frequently bad relations between the RPF's headquarters and its parliamentary supporters and also to recapture the "rally" aspect of the movement by broadening parliamentary representation in the top echelon of the RPF, the movement recently replaced its old Executive Committee by a new Directing Council. In this council, however, the RPF "old guard" (such as Soustelle, Baumel, Malraux, and Palewski) is still dominant.

Despite this top level reorganization, open conflict has arisen between de Gaulle's headquarters staff and the RPF parliamentarians. Following the disciplinary expulsion of four members of Parliament from the RPF, Radical-Socialist Paul Giacobbi, president of the RPF inter-group in the Assembly and member of the Rally's Directing Council, resigned both posts in protest on 7 July. In view of the antagonism between RPF adherents in Parliament and de Gaulle's entourage, further resignations may follow. Jacques Soustelle, the Secretary-General of the Rally, has reportedly conferred with RPF parliamentarians in an attempt to heal the breach. Such an outcome appears unlikely, however, particularly since de Gaulle himself stressed "discipline" within the RPF in a recent speech.

These developments indicate a probable decline of political significance of the RPF inter-group in the Assembly and a possible similar trend in the Council of the Republic.

B

Although Communist propaganda for French military defeatism is being intensified, the Government will probably delay suppressive countermeasures, even though the obvious aim of such propaganda is to embarrass the Government in its support of the Atlantic Pact and the Indo-Chinese war. Communist periodicals, for example, are now indirectly inciting the armed forces to disobedience by printing excerpts from Party leaders' speeches aimed more directly at this objective in the past.

The Government's reasons for not moving at once to suppress such propaganda probably are: (1) it is now awaiting the outcome of a legal test case against a Communist youth periodical charged with inciting troops to disobedience in the 1947 strikes; (2) it has up to now consistently avoided giving the CP any defensible grounds for complaining of illegal suppression of Communist activities; and (3) it anticipates that this propaganda will not under present circumstances affect the great majority of Frenchmen, who traditionally uphold strict enforcement of military discipline.

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BELGIUM

B A second failure of the Catholic Party to form a Cabinet pledged primarily to find a solution to the royal problem, again demonstrates that the Catholic Party must modify its demands in order to obtain support of either the Socialists or Liberals, or both, in establishing a new Government. A proposal put forward by van Cauwelaert, Catholic leader, calling for a referendum to determine the popular support for King Leopold's return, was rejected by both the Socialist and Liberal Parties. The Socialists stated adamantly that a two-thirds majority would be necessary and that failure to obtain sufficient support must mean King Leopold's abdication. The Liberal Party declared that cooperation with the Catholic Party would be possible only if the new government subordinated a solution of the royal problem to the solution of more urgent and important economic problems. There is very slight possibility that the Catholic Party may attempt to govern alone, with the support of a few Liberal votes in Parliament, in which case the Government probably would be short-lived. More likely, however, is another Catholic-Socialist coalition, either with Socialist terms government a popular consultation on Leopold's return or with a temporary withdrawal of the royal problem into the background.

NETHERLANDS

A Continuation of the Government's conciliatory Indonesian policy now seems assured, following parliamentary approval last week of the agreements reached with the Republicans on (1) restoration of the Republican Government, (2) provisions for restoring law and order, and (3) agenda for a roundtable conference at the Hague. Severe criticism of Government policy from conservative parliamentary members and Catholic leaders, since the return of Republican officials to Jogjakarta on 6 July, had caused some concern among Dutch officials that the Government could not stay in power without modifying its attitude toward the Republic. Parliamentary support was received at a secret session of the Second Chamber, and although a public debate will be held after the Republican Government ratifies the agreements, it is now expected to give rise to no serious difficulty for the Netherlands Government. As

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the Dutch representatives begin the more extensive negotiations with the Indonesians on the United States of Indonesia and the Netherlands-Indonesian Union, however, further criticism of any Dutch concessions may be expected and may be strong enough to restrict somewhat the latitude of the Government in the negotiations.

ITALY

A The Vatican decree of 13 July excommunicating Catholics who defend or spread Communism will have a significant impact upon political alignments in Italy and will tend to accentuate sharply the clerical and anti-clerical lines of political division.

Italian Communist Party membership, now estimated at 1.8 to 2 million, will be substantially reduced. Leadership of the party will not be affected, however, and the party will be trimmed to its more hardened and disciplined elements. The voting strength of the Communists will be weakened to an even greater extent than its membership. This loss will be reflected in the regional elections, which are scheduled for the fall, and will be greater still if the regional elections are postponed until the spring of 1950, to coincide with the communal elections, as is now urged by right-wing Christian Democrats.

Most of the members and votes lost by the Communist Party will be absorbed by the Socialist groups. The statement of left-Socialist Chief Nenni that the Vatican decree does not affect him or his party may pre-empt an effort to make the Italian Socialist Party acceptable to those who attempt to retain both their leftist political beliefs and their religious affiliation. Because of previous collaboration of the left-wing Socialists with the Communists, however, the condemnation of fellow travellers implicit in the Vatican decree will tend to neutralize any such efforts.

Larger benefits will probably accrue to Romita's "Autonomous Socialists", a non-Communist offshoot of the left-wing Socialists, whose traditional Socialist principles will permit it to attract former Communist members and voters. Moreover, the anti-clerical position of the "Autonomists" may serve as a safe rallying point for anti-clerical reaction to the decree -- a point where a Catholic Italian could reconcile a deeply religious culture, leftist political leanings, and resentment against Church interference in his political life.

The Socialist Party of Italian Workers (PSLI) has been clearly anti-Communist since its inception, but because its traditional socialism and anti-clericalism have been weakened in the eyes of left-wing voters by its participation in the Christian Democratic Government, it stands to gain little from political realignments growing out of the Vatican decree.

The Liberal Party, though traditionally conservative, is strongly anti-clerical and will tend to be alienated from the pro-clerical Christian Democrats by what it will consider further manifestation of Church meddling in secular affairs.

The Christian Democratic Party will tend to be stamped more indelibly as a clerical party. As political alignments tend to congeal into four segments -- extremist left, extremist right, clerical (Christian Democratic-Government Party), and anti-clerical (Socialist-Opposition Parties) -- the pressures may be increased from both within and without the Christian Democratic Party to form a single-party Government.

SPAIN

B

Negotiations with French private banking interests to lend Spain 15 billion francs (about \$45 million) for the purchase of French industrial equipment appear to be nearing conclusion, although the French Finance Ministry may veto the loan on political grounds. If the loan is made, it will constitute an important step in Spain's attempts to rehabilitate its national economy, and will represent the largest private foreign loan negotiated since World War II. Announcement of the negotiations followed soon after the conclusion of a bilateral trade agreement between the Governments of France and Spain, amounting to 23 billion francs. The trade agreement and the loan negotiations constitute notable examples of the willingness of the French to do business with Spain on a considerable scale while officially condemning the Franco regime and opposing the return of ambassadors to Madrid.

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