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OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER  
BRANCH WEEKLY

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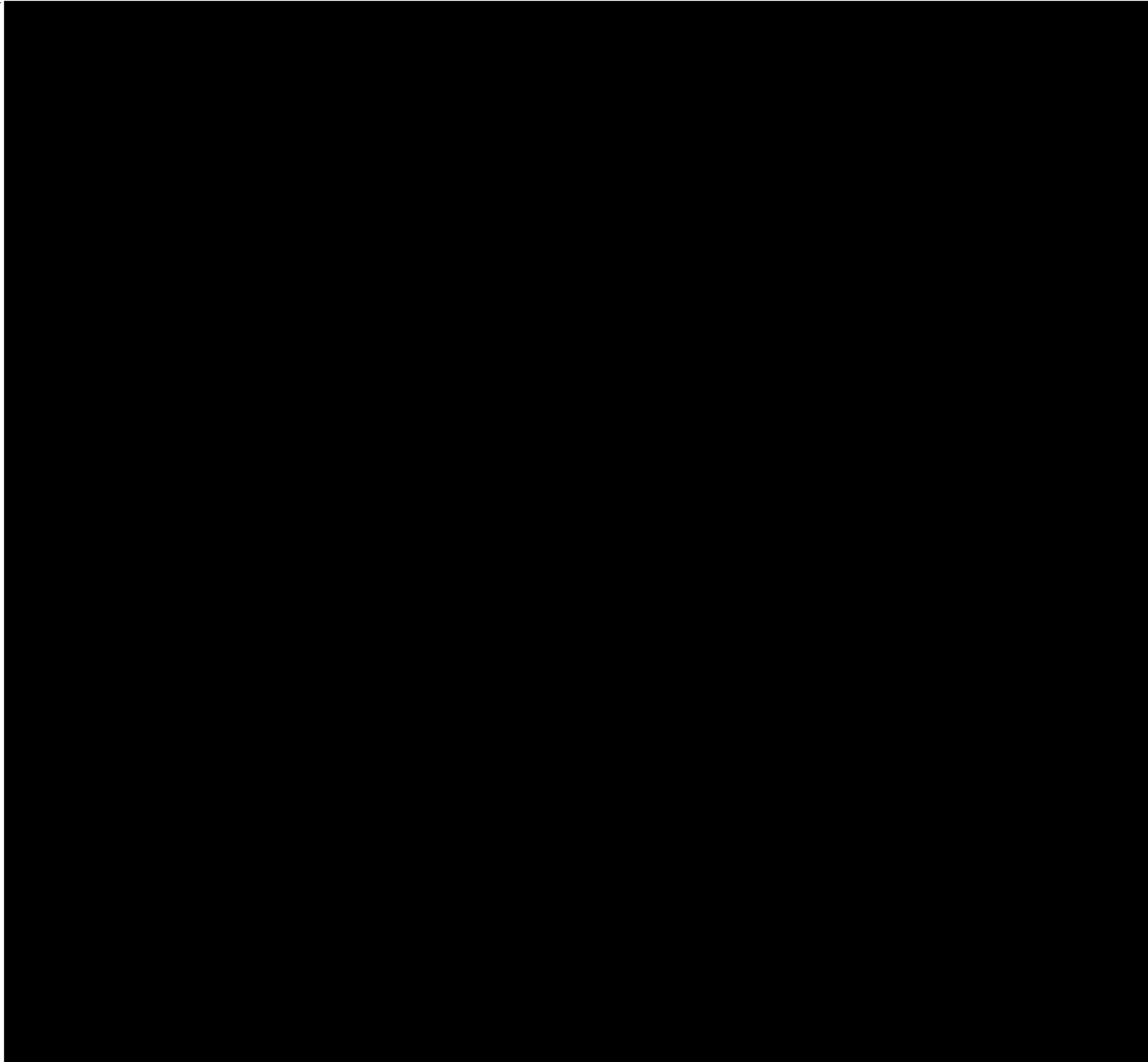
WESTERN EUROPE BRANCH

WEEKLY SUMMARY

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For week ending  
9 August 1949

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**AUSTRIA**

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Further progress is likely in writing the Austrian treaty, although it is highly uncertain that complete accord will be reached by the 1 September deadline. Despite appearances to the contrary, considerable advance has been made in narrowing specific areas of disagreement. Those remaining, however, are the most difficult and technical.

A solution to the complex problems of the German assets in Austria continues to represent a most essential part of any settlement. Of paramount importance for Austria's future economy are the inclusion of industrial and transportation equipment in the category of "war booty" to be relinquished by the USSR, and an equitable division of the oil lands and retention of a pipeline for common use. These matters are still at issue, and together with the determination of the properties to be included in the shipping interests to be retained by the USSR, appear to constitute the points where agreement will be most difficult. Compensation to U.N. nationals for losses resulting from Soviet retention of oil and shipping facilities is another matter for agreement.

The remaining points in the German assets problem are less complex. Here the problem lies in getting the USSR to agree to incorporate in the treaty itself its oral interpretations of treaty articles. These interpretations include the view that Austrian promissory notes for lump-sum payments are neither interest-bearing nor negotiable, that Austrian law clearly applies to properties retained by the USSR, and that export of profits and rents shall be "net". In addition, the western deputies desire to have the treaty include Soviet agreement that settlement of future disputes with Austria shall be made in conjunction with a third arbiter.

The other specific points of disagreement can probably be settled with comparative ease, although they may await further progress on the more complex issues. Austrian guarantees of minority rights, obligations

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toward displaced persons and refugees, and permission to employ foreigners for aviation or war materiel activities within Austria are of lesser importance in writing the treaty.

### FRANCE

A The Government is unlikely to stand firmly behind certain major provisions of an "economic and financial program" which has been drafted by French Finance Ministry officials. This paper has been offered to ECA in support of the recent French request for an extraordinary counterpart release of 30 billion francs, which would assure the Treasury sufficient operating funds until fall to offset unexpectedly poor tax receipts and heavy demands.

There is probably no broad support within the Government for the view, taken in the official program, that France's principal economic objective in the coming months is the reduction of European trade barriers, as urged by OEEC and ECA. The Government is apt to seek refuge in the qualifications, found in the program, to a unilateral removal of restrictions on certain imports. The Government will probably not adopt a liberal policy this year, and will go no further than negotiate with other nations for multilateral action in eliminating trade restrictions.

Also, for political reasons the Cabinet is unlikely to accept the Finance Ministry's expressed aim of making "every possible effort" to improve the situation of the nationalized industries, so that they would not have to meet their deficits by drawing on the Treasury.

A The General Confederation of Labor (CGT) will increasingly obstruct the Government's efforts to achieve greater industrial productivity, which is essential for further progress under ERP toward French four-year goals of increased production and a balance of payments. The index of industrial productivity in 1948 averaged about 87% of 1938 (the all-time high was 105%, reached in 1937). However, the Government's efforts in the past twelve months to organize a program have been beset both by the problem of the extent of CGT participation, and by management-labor friction. Partly as a result of these difficulties, the French will probably fail to attain in 1952 their goal of a production level somewhat in excess of the 1937 peak.

The Government has made little progress toward either setting up instrumentalities to direct a program or obtaining ECA assistance. During the winter of 1948-49, agreement within the Government was impossible on the question of CGT representation on a proposed top

directing committee. Jean Monnet, Director of the Modernization Plan, proceeded independently with CGT representation, in his established Working Group on Productivity, while the Ministry of Industry and Commerce established another Productivity Committee, excluding the CGT. Finally, in March a plan was announced to establish one committee with CGT representation to supervise the program in general, and another "limited" committee of Government officials only, who would have sole competence in all matters concerning ERP. So far, however, the general committee has not functioned, and management-labor friction in the selection of "pilot" teams to visit U.S. factories has held up this fundamental step. In addition, ECA has not acted upon a French request for \$2.9 million, submitted early in May 1949, to finance a fundamental technical assistance project.

The CGT will continue to exploit the opportunities in this situation for counteracting U.S. aid to France. Merely by taking no part in the selection of "pilot" teams, it so weakens the representation of labor as a whole that the employers are encouraged to dominate the process. Hence the requisite labor support is lacking, and the first steps toward implementation of the productivity program are unsatisfactory. Furthermore, to relieve unemployment the CGT on 27 July aimed a direct blow at the production program by demanding a curtailment of the workweek from 48 to 40 hours without reduction of take-home pay. Acceptance of this demand would more than cancel the gains -- cost and price reductions -- which the Government expects from increased productivity over the next year. The tactic is, moreover, cleverly calculated to marshal the maximum rank and file support for a fall CGT strike offensive. The Government will be able to resist this demand logically, if not wholly effectively, by demonstrating especially that present unemployment is far from justifying the CGT's demand, inasmuch as it does not exceed 1% of the total working population.

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The Communist-dominated General Confederation of Labor (CGT) will probably be able to accelerate labor unity of action throughout the rest of the summer, but the CGT is not expected to attempt to foment serious labor unrest until the fall. One recent development has served to increase the tempo of joint labor action. Socialist Minister of Labor Daniel Mayer, without previous consultation with his fellow ministers, granted a vacation bonus to the already well-paid employees of the social security system, which functions under his ministry. Politically, his action weakened the harmony of the Government coalition (moderates and conservatives were strongly opposed while the Socialists firmly backed Mayer), and even resulted in a threat to the existence of the Queuille Government, which was sustained by a very narrow

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margin just before Parliament recessed. In the field of labor, the natural consequence has been an immediate increase in the number of joint labor demands for a general vacation bonus, and preparations for requests for higher wages. In effect, Mayer's action has aided and abetted the prime current objective of the CGT -- achievement of labor unity of action.

### FRENCH AND SPANISH NORTH AND WEST AFRICA

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A serious internal crisis, reported to have developed within the moderate nationalist UDMA (Union Democratique du Manifeste Algerien) party in Algeria, opens the way for a new threat to the stability of French North Africa (FNA). The dissension arises partially from losses suffered in the recent cantonal elections, gravely affecting the morale of the party militants. The ranks of the party are now divided and a schism is developing within the party's Central Committee where a majority is believed to be opposed to the continued leadership of Ferhat Abbas, blamed as the major cause of the party's reverses. Feeling has also run high against Abbas since he presented himself to President Auriol during the latter's visit to Algeria, after forbidding party militants to participate in any way in the President's political tour of inspection. Should Abbas be forced to resign, his successor is likely to be Ahmed Boumendjel, No. 2 man of UDMA.

Some of the more active UDMA leaders now even favor dissolution of the UDMA, and a subsequent affiliation by party members with the Algerian Communist Party. Should such a fusion occur it would be the most striking example in FNA of nationalist-Communist collaboration since the public acceptance in July by the Tunisian nationalist labor union (UGTT) of official affiliation with the WFTU. Either of these affiliations contains a greater threat to the future stability of the territories involved than any other recent political development in FNA.

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The U.S. stands to lose its unique diplomatic status -- that of being the only nation entitled to representation on the Legation level in Morocco -- if France submits the U.S.-Moroccan Treaty of 1930 to review by the International Court of Justice (ICJ). Furthermore, Morocco stands to lose recognition by one of the two powers acknowledging its sovereignty (the other power being France). France has been irritated for decades by the existence of U.S. extraterritorial rights and treaty privileges in Morocco, and most recently has taken umbrage at the attempt of

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the U.S. Senate to deny access by France to ECA counterpart funds for use in Morocco, as long as France continued alleged discrimination against a small group of U.S. nationals engaged in the importing business in Morocco. The French, if they now try to get the ICJ to withdraw U.S. extraterritorial rights by pronouncing the 1836 treaty anachronistic, will be running the risk of a similar review of the Treaty of Fez (1912) by virtue of which they established their protectorate over Morocco.

### BELGIUM

A The possibility of a stable coalition Government being formed becomes more remote as party negotiations, begun 29 June, are further prolonged, party differences are sharpened, and political confusion is increased.

A Catholic-Socialist coalition which would, except for differences on the royal problem, provide the most stable and constructive Government, appears less likely now than at any time during the current political negotiations. The major problem -- the return of King Leopold -- seems to be no nearer a solution than a month ago. Last week, the Socialist and Liberal parties formulated more clearly the extent of the compromises they were willing to make, and although some Catholic leaders probably were willing to accept a compromise, or at least postpone a decision, the official Catholic Party stand and that of King Leopold remain virtually unchanged. As a result, the Socialists have withdrawn from the negotiations conducted by Catholic leader Eyskens, and have called for Leopold's abdication. A successful all-Catholic Cabinet is extremely unlikely, and a Catholic-Liberal coalition would not only be difficult to form, but probably would be extremely unstable, with the moderate and left-wing Catholics opposing the economic laissez-faire of the Liberal Party. If such a Government is formed and is able to reach a decision permitting Leopold's return, such a move will be strongly opposed not only by the Socialists, but by many Liberals as well.

### ITALY

A The \$200 million cut in 1949-50 ERP funds for Italy proposed by an OEEC working committee would have extensive adverse repercussions. Economic activity would not be critically and immediately reduced by the \$200 million cut, certainly not to the extent foreseen by the Italian Cabinet; but long-term rehabilitation projects and socio-economic reform programs would suffer restriction, which would in the course of the year considerably increase unemployment.

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The first result of the proposed cut would be the pronounced and instantaneous psychological reaction of the Italian public. Expectations would be disappointed, and the latent anxieties regarding continuity of American aid would be aggravated. These effects probably would not cause a complete change of Government, but might force the resignation of one or more minor-party ministers who have been closely associated with ERP and the U.S., i.e. moderate Socialists Lombardo and Tremelloni, who have economic portfolios, and Republican Foreign Minister Sforza. In such an event, these ministers would probably be replaced by conservative Christian Democrats. This change, along with the increased susceptibility of the surviving members of the present Government to conservative attitudes would have a total effect of shifting the Government toward the right. Among other consequences, such a shift would imperil the more liberal aspects of the agrarian and other reforms scheduled for discussion in the next session of Parliament. Moreover, the development of a vigorous investment program which is considered paramount to the attainment of ERP goals in Italy would seriously suffer from the increased conservatism of the Government.

#### SPAIN

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Renewed Monarchist propaganda against the Franco regime may be expected as a result of Don Juan's refusal to deal further with Franco. At his meeting last year with Franco, the Pretender agreed to a truce "armistice" because of verbal assurances from Franco that the Monarchy would be restored within a reasonable time. Franco's speech to the Cortes in May, which was notable for its failure to mention the restoration, offended the Monarchists, and apparently convinced Don Juan that Franco's assurances were not made in good faith and that further dealings with him would be futile. Since June there has been noticeably increased activity on the part of Don Juan's supporters in Spain. Special efforts are being exerted to reach the younger army officers whose economic difficulties, Don Juan's advisors believe, will make them particularly susceptible to propaganda against the present regime. Some of these officers already have begun the secret revival of the "Juntas de Defensa", mutual aid societies which in the past have been centers of effective political agitation. Most of the general officers remain loyal to Franco and have a considerable stake in preserving the status quo.

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PORTUGAL

**B**                    Extraordinary measures recently taken by the Portuguese Government to maintain monetary and financial stability will prove to be very effective. The first step was to curtail private credit in order to secure funds to meet the current obligations of the Government. Most tariff duties and the tax on gasoline were increased to provide supplementary funds. The Government will also attempt to augment its revenues by taking a firmer line with tax evaders, black marketeers, and smugglers.

In addition, the Government has armed itself to deal with anyone opposing its economic policies. By decree, it has given the Ministry of Interior direct supervision over the Council of Public Security, which is empowered to take forceful action against any person constituting a threat to the national security. The decree is so worded that it is possible to interpret any action revealing an unsympathetic attitude toward Government policies as a threat to security.

To dispel public alarm over the country's financial situation, the Ministry of Finance has issued a communique stressing that there is no cause for concern over the Government's ability to maintain a financial equilibrium, and justifying tariff increases on the grounds that the income derived will make it unnecessary to drain the Treasury.