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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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## AUSTRIA

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The problem of Austrian devaluation of the schilling points up not only the large percentage of total imports which are financed by ECA but also the fact that the bulk of foreign exchange transactions do not presently take place at the official rate. This situation will lead to Austrian efforts to retain the present dollar-schilling conversion rate for ECA imports, but to revalue the schilling in terms of currencies which have been devalued.

Some 40% of Austrian imports amounting to about 8% of all goods and services available to the Austrian consumer are financed by ECA grants. A devaluation of the schilling in relation to the dollar would, therefore, result in a rise in prices and in the cost of living, unless domestic sales of ECA imports are subsidized. Since, however, the financial position of the Austrian Government is weak, it appears unlikely that such a program could be successfully undertaken without some budgetary relief, perhaps through larger allotments of counterpart funds. This would, in turn, require agreement by ECA, which so far has refused the use of counterpart funds for such subsidy schemes.

Actual commercial exchange transactions in recent months have largely taken place not at a fixed rate, but at multiple rates which have generally been much greater than the official rates. A devaluation in terms of currencies other than dollars, therefore, would not lead to important price-level rises. The official establishment of a multiple exchange rate showing devaluation in terms of other than dollar currencies would merely confirm actual practice.

Because the main function of the official dollar rate today appears to lie in its use as a conversion factor for calculating the schilling value of ECA imports from the dollar area, Austrian devaluation represents the greatest problem in terms of the dollar. To date the Austrian Cabinet has announced its intention of holding the 1 to 10 ratio of the dollar to the schilling, but has suspended other currency transactions. Austria is now faced with the choices of:

- (1) devaluing and adopting a unitary rate of exchange;
- (2) adopting a single devalued rate for all currencies except the dollar;
- (3) adopting a devalued unitary rate of exchange but subsidizing ECA dollar imports; and
- (4) establishing multiple exchange rates with the dollar pegged at approximately the present rate.

Since the first choice appears likely to lead to price level increases with attendant political repercussions, the Austrians will probably attempt one of the other three courses of action.

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FRANCE

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Devaluation is aggravating French domestic problems and has deepened French doubts that the UK intends to promote European solidarity. A single "official free" exchange rate for the franc was established on 20 September, amounting to 350 francs to the dollar (compared to the previous "official free" rate of 330, commercial rate of 272, and base rate of 214). Although the main objective of the franc's devaluation is to increase dollar earnings by expanding exports, real progress toward this goal will depend mainly upon the Government's efforts to reduce production costs and adjust manufacturers' methods and products to meet US buyer demands. The realignment of the franc will probably promote the already-apparent rise of prices.

Labor unions will press increasingly for Government action to raise wages, place new controls on prices, and restore collective bargaining. The Government, despite its internal disagreements, will soon be forced to make a decision on the wage issue, probably by approving immediate payment of a special bonus, and recommending to Parliament a gradual return to collective bargaining. Any wage increases would add to the Government's budget-making difficulties in October, because such increases would have to be extended to nationalized industries.

Britain's drastic unilateral action has caused the French Government a considerable loss in prestige. The French regard this action as detrimental to European economic cooperation, which had been so considerably supported by the recent sessions of the Council of Europe and by the work of OEEC.

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The Metalworkers' Union affiliated with the Christian Confederation of Labor (CFTC) is likely to resort to unity of action with the Communist-dominated General Labor Confederation (CGT) in the critical iron and steel industry. This probability results from the strong stand taken by the Metalworker Union Congress, which recently demanded the immediate unfreezing of wages and a sliding wage-scale based on the workers' family budgets.

Not only will these demands be unacceptable to the Government, but the Secretary General of the CFTC warned the Congress that the metalworkers should confine themselves to what was "reasonable". In view of CFTC's financial unpreparedness to initiate widespread strikes, the determined Metalworkers' Union is likely to act jointly with the CGT.

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ITALY

A Plans for early unification of the two Italian non-Communist labor unions are probably premature, and such a merger might be distinctly disadvantageous at this time. A call for a unification congress to be held 8 November has been issued by the Catholic-dominated Free Confederation of Labor (LCGIL) with the support of some leaders of the moderate leftist Federation of Italian Workers (FIL). The LCGIL, the FIL, and an independent group have agreed to hold three separate conventions in Rome prior to 8 November to discuss a unity resolution.

The FIL was formed only four months ago when Republican and moderate Socialist (PSLI) labor factions split off from the Communist-dominated Confederation of Labor (CGIL). Other Socialist labor factions have since left the CGIL but have not as yet entered the FIL, whose situation is still fluid and whose potentialities for attracting larger membership have not yet been exploited. Its present membership is 400,000 to 500,000.

The Catholic LCGIL split off from the CGIL only one year ago, and continues to gain in membership and improve its organization, although its potentialities have been more fully realized than those of the FIL. Its present membership is 1.2 to 1.5 million. Although both non-Communist unions are growing, taken together they are still outnumbered about 2 to 1 by the CGIL.

Because the LCGIL outnumbers the FIL at present by 3 to 1, any merger effected at current membership level will place a heavy clerical stamp upon the new federation, despite Vatican assurances of non-interference. The possibility of excessive clerical influence on the amalgamated group would be feared by both present and former CGIL elements which might be attracted to an independent FIL. Greater difficulty would also be experienced by the FIL in attracting the large body of unorganized workers who find either Communist or Catholic domination unpalatable.

Unification at this early date could therefore be effected only at the risk of compromising the FIL's integrity and potential to the prejudice of a more effective non-Communist labor front which might be achieved at a later date.

B The recent speech of Italian Communist leader Palmiro Togliatti will place an even greater strain on the allegiance of the Longo CP faction that believes in strong measures, and may subject Togliatti to censure by the Cominform. Togliatti's remarks had a decidedly nationalistic and pro-constitutional

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flavor, and, though strongly critical of the Church's influence in the government, were conciliatory on the subject of religion. The Communist leader charged the Government with failure to implement the promises of the Constitution, but he bordered close upon Tito nationalism when he averred that "not a single vital question of foreign policy has been resolved according to the interests and desires of the nation", and that the Italian Government does "not place the interests of the nation over everything else".

Although he criticized the Government for its clerical nature and orientation, Togliatti offered assurance that in its pursuit of a truly national policy for Italy and its adherence to the Constitution, the Italian Communist Party offers to all, "whatever their party allegiance, whatever their religious faith--which we respect--whatever their social and productive means of livelihood...a way of unity between the mass of people and democracy".

These expressions of Togliatti's very closely parallel the views of Communist Senator Terracini, whom the Longo faction has vigorously attacked before the Cominform for alleged Titoism and bourgeois deviation. Togliatti gives no indication in his speech of any effort on his part to reconcile the Longo-Terracini policy dissension, as he was reportedly instructed to do by the Cominform. Rather, the support of the Terracini position implicit in Togliatti's statements will tend to make the Longo direct actionists in the Italian Communist Party more restive than ever.

#### VATICAN

B

The Vatican's currently active participation in western European politics tends to diminish the role of the moderate Socialist parties. Success in its support of the Christian Democratic Party in Italy in the 1948 elections has encouraged the Church to similar overt political activity prior to the recent German elections and presently in Austria, where elections are to be held next month. The governments of Italy, Spain and Portugal have long been closely associated with the Vatican, so that the recent rise of the Catholic parties to a dominant role in Germany and Belgium has placed the Roman Catholic Church in western Europe in a position of outstanding political importance.

Now that the German Christian Democrats have formed a coalition without the Socialists, members of the hierarchy are more than ever anxious that Germany be admitted to the Council of Europe. The Church welcomes the Council as a weapon against

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Communism, but has feared domination of the Council by the Socialists. The Vatican opposes even anti-Communist Socialists as dangerously tainted with Marxism, and has always been uneasy about Catholic-Socialist coalitions, even when broadly-based governments appeared necessary to hold popular approval.

The Vatican is putting pressure on the Catholic parties of Europe to design a positive social reform program, especially now that the Papal decree forbids Catholics to follow the socio-economic program of the Communists. Such pressure will encourage minority elements of the Catholic parties that have long been eager to develop a social program in complete independence of the Socialists. This tendency of the Catholic parties toward independent action, along with the political efforts which the Vatican can be expected to make in the future, will alienate the Socialists in or out of the governments, and will thus serve to divide the anti-Communist and progressive forces and make difficult the attainment of important social goals.

#### SPAIN

B Increased international tension, resulting from the disclosure of the USSR's atomic explosion, will serve to strengthen Franco's internal position. Reports of the explosion are expected to prompt new remarks by US political leaders advocating Spain's inclusion in European defense plans. Such remarks will revive Spanish hopes of US financial assistance and thus will restore to Franco at least temporarily the support of many Monarchists and Army officers who had been wavering in their allegiance because of the regime's failure to date to obtain substantial foreign aid. In his public speeches and through the official Spanish press, Franco has been explaining this failure by attributing to the US a subservient attitude toward the USSR, an attitude found in the "weak" and "unrealistic" US policies.

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