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OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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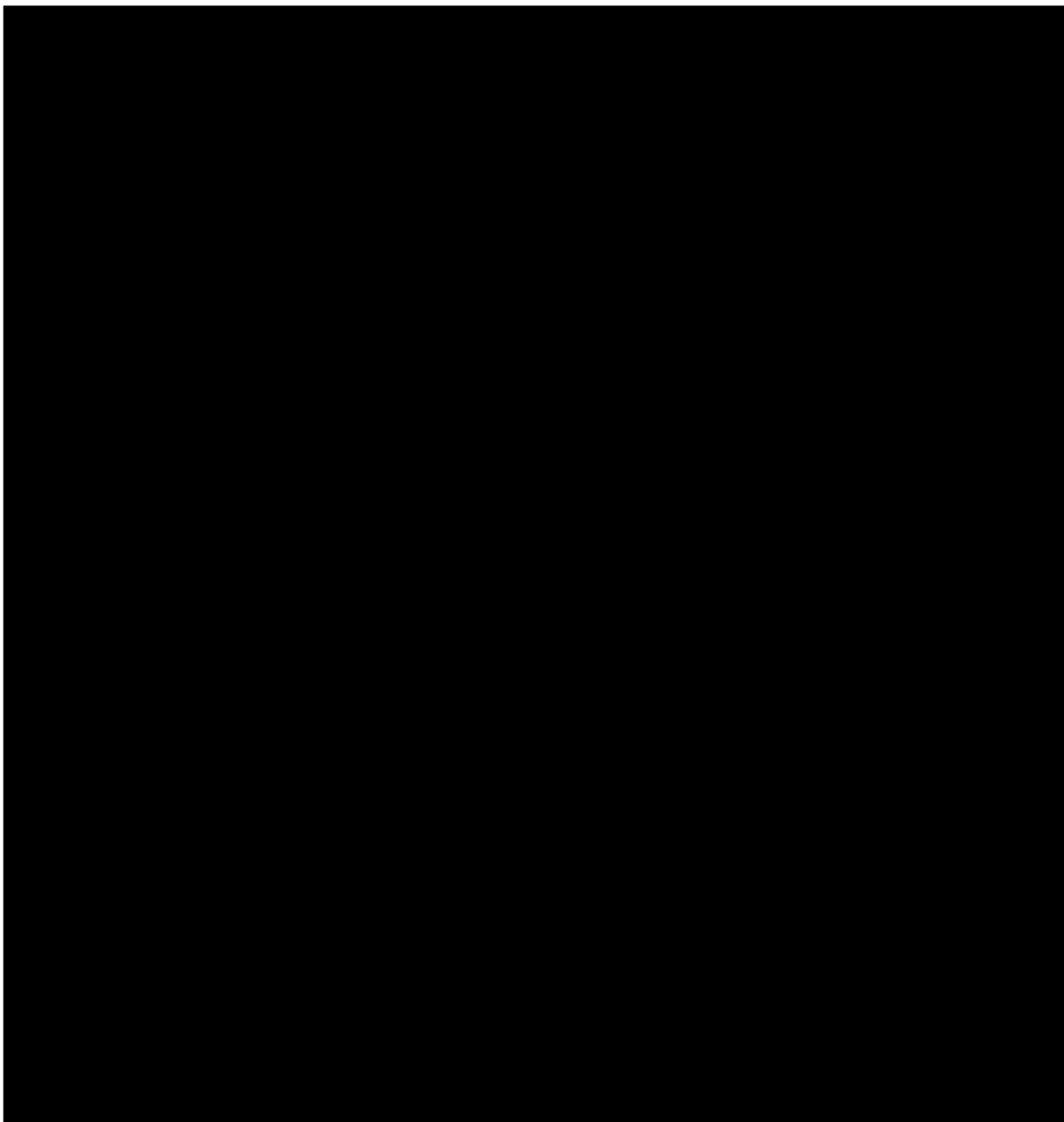
WESTERN EUROPE DIVISION

WEEKLY SUMMARY

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For week ending
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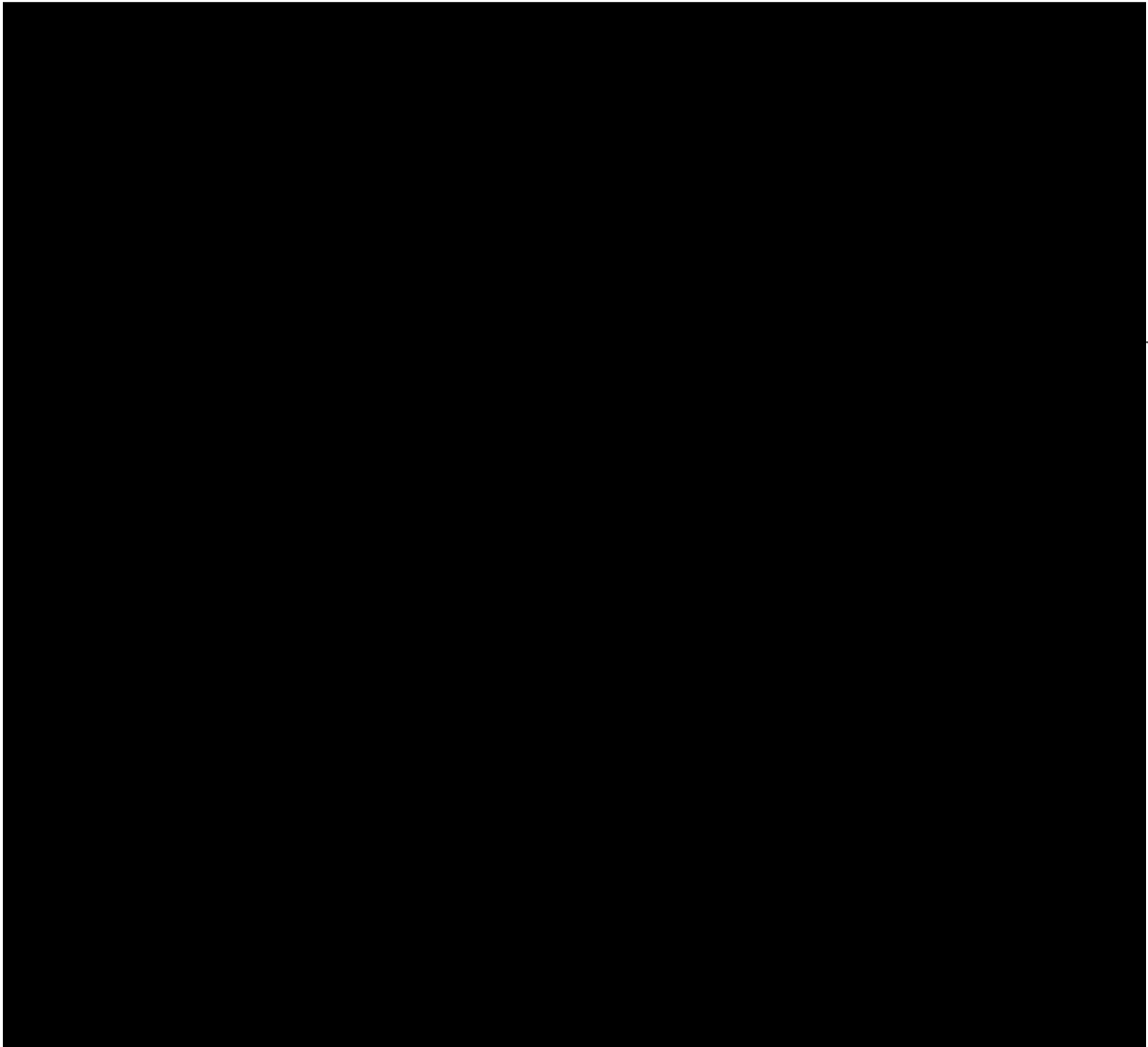
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AUSTRIA

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Austrian Chancellor Figl's proposals for combatting price increases and controlling cartels will not keep labor from pressing for a widespread wage increase. In the past, the Socialists have tried to prevent inflation by holding down both prices and wages, but the growing wage-price disparity occasioned by the current rise in the cost of living has forced the Socialist leadership to declare that it will have to demand higher wages if the Government does not restore the wage-price relationship which existed after the

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May wage-price agreement. That agreement, although it reduced real wages about 10%, nevertheless aimed at long-term stabilization of the economy, so that when the cost of living subsequently declined slightly, Socialist leaders were able to keep labor in line. By mid-September this trend toward lower prices halted, and wage demands began to increase perceptibly. In several instances, workers who had suffered most by the May agreement engaged in scattered strikes which led to increased wages, first on a local basis and then on an industry-wide basis. These strikes, coupled with the price rise since September, have culminated in widespread discontent evidenced in recent protest strikes and in demands of factory delegations for immediate measures to combat price rises.

The recent price rise has been largely caused by: (1) the upward pressures exerted on the Austrian price level by the European devaluations; (2) the failure of the Ministry of Trade to implement fully a raw material control law; (3) the price rigidity resulting from increasing cartelization which has accompanied derationing; and (4) the abnormal buying which has reflected labor's concern that its real earnings will drop again as a consequence of an expected schilling devaluation.

FRANCE

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The arrival in France of MAP arms shipments will provide the French Communist Party with an excellent chance to capitalize on the national sensitivity in security matters. French government officials have already revealed this sensitivity by requesting the US to withhold publicity in France of the requirement that MAP shipments are contingent upon a bilateral agreement between France and the US. The CP propaganda line against the Military Assistance Program will, in general, be as follows: (1) effective large-scale defense is impossible, and France would again become a major battlefield in the event of war with the USSR; (2) the French role under Western strategic planning is to provide most of the manpower, while the US and UK engage in mass destruction by aerial bombardment and by use of the atomic bomb; (3) MAP shipments mark a shift from a policy of economic reconstruction and stabilization of western Europe to an intensive military rearmament race at the expense of French recovery; (4) MAP shipments will consist largely of outdated surplus military equipment, while the US retains most of the modern arms for its own forces; and (5) the MAP may have the effect of provoking the USSR to early retaliation.

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Deputies of the French Peasant Party in the National Assembly will become increasingly obstructionist towards the Government's economic policies and will probably maintain their recent decision not to support the Bidault coalition. Although the Peasant Party has only 15 seats in the Assembly, it is of strategic political importance, inasmuch as the Third Force majority is diminishing and the Peasant Party is generally representative of French agriculture, whose animosity toward the Third Force's economic policy is being intensified.

Hostility towards the Government on the part of the Peasant Party and the General Confederation of Agriculture, the largest organization of farm groups in France, has been steadily developing since the end of the War. Farmers have always expressed grievances that the Government's assistance to agriculture has been negligible as compared to its support of nationalized industries, allowing for little agricultural modernization or improved rural engineering. In the summer of 1949 there were strong protests against Government-controlled wheat and milk prices. In support of the Farmer's grievances the Peasant Party has advocated the following program: (1) "fair" farm prices; (2) protection against foreign agricultural products; (3) reduction of taxes; and (4) more equitable distribution of investment funds. In prospective debates in the National Assembly concerning the 1950 budget and other economic issues, the Peasant Party will oppose strongly any proposals to increase taxes.

Taken alone, neither the refusal by the Peasant Party deputies to support the present Government, nor the General Confederation of Agriculture's threat to resist actively any agricultural policy "equivalent to economic suicide" would be a critical threat to the present coalition. Added, however, to the growing inclination of many Socialists and Radical Socialists to defect from the coalition as a result of internal disagreements, this opposition may result in a critical weakening of the Government's majority in the Assembly.

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A renewed upward spiral of prices and wages in the coming months will probably cancel some of France's progress toward financial stabilization achieved in the first half of 1949. The public warning by the Government-owned Bank of France that this trend is the result of action by pressure groups, and is dangerous to the economy, is not likely to be effectual. The Bank itself showed a

tendency toward lax enforcement of credit restrictions prior to September. Within the Cabinet, moreover, the Right of Center and pro-labor elements have recently appeared more responsive to the demands of business and labor respectively.

The steady rise of the retail price index since July amounted by October to 9%. In that month, a downward trend in wholesale prices of industrial products was sharply reversed as a direct consequence of devaluation, presaging another boost of living costs. Now substantial reductions in imports are to be anticipated, a development which will limit the supply of many essential goods and thus give a further impetus to the price rise. This curtailment of imports will result from: (1) the approximately 30% decline in direct ECA aid in the current fiscal year, and (2) the unlikelihood that France can sufficiently expand its volume of exports to the dollar area to maintain even the pre-devaluation level of imports financed by dollar earnings.

Meanwhile, labor is likely to contribute to the price rise by achieving in the next few months some increase in the general level of monthly wages, as collective bargaining is restored. Business, whose cash requirements were eased in August and September as the Treasury and the nationalized industries expended large sums for investment purposes, is now increasing its pressure for the creation of new money through credit expansion, partly in order to meet the heavy tax payments due in the final weeks of 1949.

All these influences are likely to undermine the earlier relative financial stability evident even through the recent political crisis, when French stocks, Government bonds, and the black market quotation of the dollar remained steady.

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After taking a minor step in December toward freeing the country's trade, the French Government will probably proceed slowly in eliminating import quotas on agricultural products. Caution is dictated by the need to appease the farmers, who, nevertheless, will probably lend some support to the trade liberalization program if the Government stresses the British and German markets for agricultural goods which would be created by the removal of trade barriers. The final step, to be taken in December, towards removal of import quota restrictions on 50% of private agricultural imports from OEEC countries will be small, inasmuch as most of the 50% was previously freed on 1 October by the French Government.

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FRENCH AND SPANISH NORTH AND WEST AFRICA

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Increased labor unrest and strikes appear probable during the coming months in Morocco. The lot of the farm laborers, who constitute about 70% of the 2,100,000 working population, is one of the virtual animal subsistence by western standards. The current monthly wages vary between about \$4.00 and \$8.50 (1,500--3,000 francs). The Moroccan industrial workers are only slightly better off. Although social and labor legislation of a fairly progressive nature exists in Morocco, its application and enforcement is extremely spotty. The most difficult problem confronting the native laborer results from the advance in the cost of living index at a rate twice as fast as the rise in wages, which were last increased in March, 1948. Such increases as were obtained were achieved principally after bitter strikes or the threat of strikes. These may be expected to become more numerous during the coming months, and at the same time there may be a growth of the Communist-controlled General Confederation of Labor, which is by far the most important union in Morocco. Although organized labor represents only a small percentage of the native laboring population (which, under French law, is prohibited membership in unions), its championship of wage increases will raise its prestige and attract adherents.

ITALY

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Continued delay by the Italian Government in formulating and implementing an extensive land reform program will intensify the bitterness long existing among the landless peasants of southern Italy and Sicily and afford the Communists further opportunity to capitalize on the under-
unredressed grievances of this large social group.

The need for alleviating the extremely serious plight of the country's unemployed, landless peasants has long been recognized by the Government, which is committed to a program of agrarian reform by Article 44 of the Constitution and by Christian Democratic election campaign pledged. The urgency of such a program has recently been accentuated by Communist-incited disorders in the southern Italian province

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of Catanzaro, where police were compelled to fire upon farm laborers who had occupied privately-owned land. There have subsequently been similar seizures of land on a larger scale by the peasants around Palermo, Sicily.

The currently quiet situation among farm workers is temporary, and is due only to: (1) the achievement of a satisfactory agreement between the peasants' union and the landowners' association of Catanzaro, (2) Cabinet approval of a bill redistributing land in the most backward areas of Calabria, and (3) an order from the secretary of the Communist-dominated General Labor Confederation to the peasants' unions to desist from further land seizures, pending the outcome of the Government's efforts to provide land for the peasants.

The Cabinet is reportedly now discussing the problem of land redistribution, with legislation scheduled for parliamentary consideration within a month. The need for technical consultations and the inevitability of protracted parliamentary debate render final legislative approval unlikely within the next two months. Once a program for land reform receives parliamentary approval, its scope and its results will be limited by several major factors. The most serious is the lack of sufficient land to provide for the 2.5 million peasant families who want their own small farms. The great majority of these will be bitterly disappointed in their expectations, and will direct their resentment against the Government. In addition, the new recipients of holdings will initially lack capital, equipment, and the skill requisite for efficient exploitation of the land. These deficiencies will result in a substantial decline in agricultural yield during any change-over period. Any land redistribution legislation is therefore to be regarded as the first step in an over-all program of agrarian reform, the ultimate objective of which--elimination of the basic causes of agricultural unrest--can be attained only over a long period.

The failure of the Government to take steps to remedy the situation in Calabria until pressure was exerted through Communist-instigated agitation has strengthened the Italian Communists' appeal to the peasants. As a result of Communist initiative in that area, further land reforms undertaken by the Government either locally or on a national scale will be interpreted as a victory for Communist leadership and pressure. Meanwhile, the Communists may be expected to play on the hopes of the peasants and to exploit fully their widespread discontent, as an integral part of the Communist campaign to discredit and ultimately to take over the Government.

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THE VATICAN

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Conflict between the policies of the Vatican and those of the Polish episcopate is indicated by various recent developments. The Vatican was reportedly disturbed by the fact that little publicity was given by Polish ecclesiastics to the Papal decree against Catholic Communists. Later, however, Vatican recognition of the difficulty of enforcing the decree in Poland reportedly resulted in virtual suspension of the decree there. The Polish hierarchy, on its side, has presumably become equally disturbed by increasing indications that the Vatican may favor revision of Polish-German boundaries at the expense of Poland.

A sharp difference between the views of the Holy See and the Polish episcopate over the question of concessions to the Polish Government was recently revealed when the Polish Bishops appeared ready to acquiesce in three of five demands made by the Polish Government. These three demands were: (1) Church recognition of the Polish Government, (2) appointment of Polish (rather than German) bishops in the territory annexed from Germany, and (3) taxation of Church properties. Such concessions were averted when Vatican Undersecretary of State Montini declared that no rapprochement with Poland is likely in the foreseeable future "as long as the Polish Government continues to attack the Catholic Church".

Now that the Government-controlled Polish Catholic press is again denying any attempt to establish a national Church divorced from the Vatican, the Holy See can be expected to renew its instructions to the local hierarchy to stand fast against Government blandishments. A Vatican broadcast to Europe shows increasing apprehension over possible weakening of the local clergy under Government pressure and urges "a much stronger resistance on the part of the faithful and the clergy in Poland than was the case in Czechoslovakia".

The Polish Church will endeavor to prolong the present stalemate in State-Church relations for as long as possible in order to husband its strength. However, should the State institute a new and apparently uncompromising effort to eradicate all Roman Catholic political influence in Poland, it is likely that the Church would adhere to the official Vatican policy of firm resistance.

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SPAIN

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The unprecedented failure of the Spanish police to interfere with illegal labor meetings, led by Socialists, in the Barcelona and Valencia area may be ascribed to the possibility that such gatherings are becoming so frequent that local authorities are unable to cope with them by arresting all the participants. Some of the police, moreover, are probably in sympathy with the workers. Likewise, in a recent memorial to the Minister of Industry and Commerce, mill owners and managers of Catalonia appeared to be more on the side of labor than of the Government in regard to wage and cost of living problems. The leaders of the labor meetings, which are reported to have taken place outside the official syndical organization, have not incited violence, but have appealed to thoughtfulness and restraint. Police tolerance of unauthorized labor meetings, it should be noted, does not extend to Communist undertakings.

PORTUGAL

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Salazar's full control of Portugal has been reconfirmed by the unanimous victory of his National Union Party in the National Assembly elections of 13 November in which 120 delegates were chosen. Although the election was by no means free by western democratic standards, the large turnout of voters (unofficially estimated at 65-85% as compared with 75% in the February presidential elections) showed that the population is strongly behind the Prime Minister. The opposition was stifled by close censorship of all press media. It was also caught off guard by an electoral law published 4 October which set 14 October as the last day for filing lists of candidates; nevertheless the opposition managed to submit lists of four candidates each in two electoral districts. Elsewhere in Portugal's 30 districts the Government was unchallenged, and only a small number of voters in the two districts cast their ballots for the defeated eight opposition candidates. Following the election, the chief oppositionist and former premier, Cunha Leal, sharply criticized Dr. Salazar's policies, charging that the Government manipulated the electoral rolls and thus invalidated the poll. This assertion will be of little consequence, however, as the Assembly is expected to lose much of the slight authority it possesses. According to De.

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Dr. Salazar's pre-election speech, the new National Assembly, which meets on 25 November, will be called upon to amend the constitution so as to curtail its already limited powers. Since its inception in 1933, the National Assembly has been confined mostly to commenting upon the acts of the Government and ratifying Cabinet decrees promulgated during the three months the Assembly is in session each year. Some of the delegates did criticize the Government severely last year in reference to domestic and colonial economic policies. The plan to reduce the Assembly's importance may be a result of this indiscretion, and will further strengthen the organization of Portugal as a corporative state.

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