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WESTERN EUROPE DIVISION  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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DOCUMENT NO. B  
NO CHANGE IN CLASS.   
 DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: \_\_\_\_\_  
AUTH: HP 70-  
DATE 10-29-77 REVIEWER: 372044

DATE: 14 February 1950

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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

VOL. VI - No. 6

25X6A

For week ending  
14 February 1950



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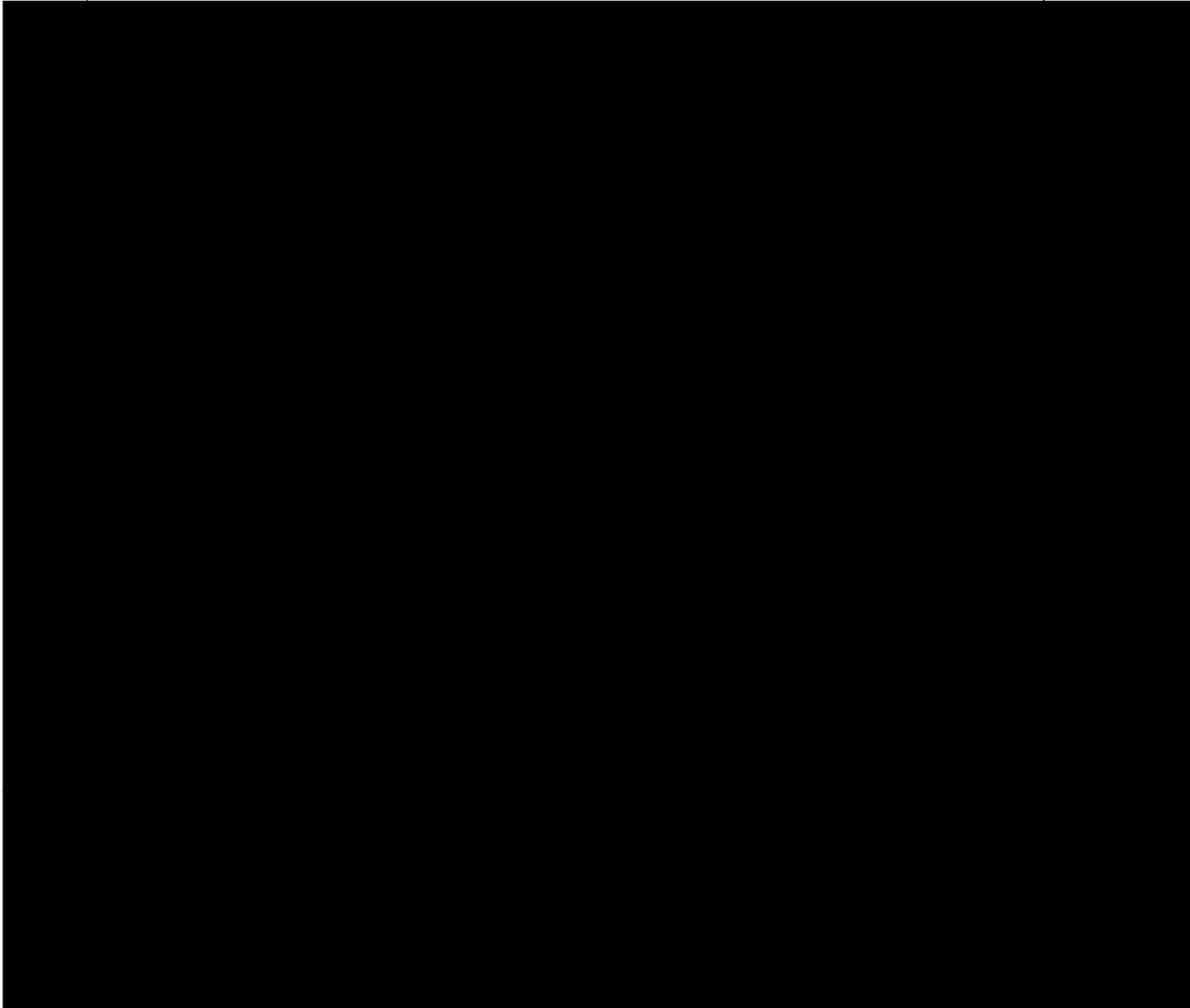
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Approved For Release 1999/09/02 : CIA-RDP79-01090A000400030006-9

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AUSTRIA

B The Austrians, who are already apprehensive of Soviet intentions in Austria, will view any new tactic of the Soviet occupation element with considerable suspicion. At present, the Austrian Foreign Office is concerned about Soviet communication facilities. Within the past week, the Soviet element has again demanded that the Austrians complete a new communications line from St. Poelten to Ennsdorf by 15 February, instead of at the later date originally requested. St. Poelten,

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an important city in the Soviet zone and one utilized extensively by the Soviet occupation forces, lies on a main rail line about mid-way between the US zone frontier and the city of Vienna; termination of the proposed line at Ennsdorf, on the US-Soviet zone border, has undoubtedly aroused Austrian suspicions. To date, the Austrians have refused to build the line, taking the view that the Soviet element, which wants the line, can build it itself. Last year this attitude was adopted when the Soviet element demanded a telecommunications line running from St. Poelten to the Hungarian frontier, by-passing Vienna; the line was finally built by the Soviet forces. The latest Soviet request, however, and the apparent urgency attached to it, has disturbed the Austrian Foreign Office, which regards it as evidence of Soviet intentions of a prolonged occupation and suggestive of a Soviet move of some importance.

One other factor, as yet not officially confirmed, could conceivably be arousing Austrian apprehensions. Reports indicate at least the possibility of a developing Soviet economic blockade against Yugoslavia. The reported blockade has, to date, apparently consisted only of Soviet refusals of interzonal transit permits for goods moving from the Soviet zone to Yugoslavia, via western Austria and Trieste. The Austrians, however, may regard this ban as a hint of further Soviet actions along this line. Although the present reported blockade could easily be circumvented by the Austrians, they will probably be increasingly fearful of stricter Soviet controls, which would contribute to a possible economic partition of the country.

B            Strong Socialist control of Austrian workers will probably be retained in the immediate future, but will become increasingly strained if there are no effective wage-price adjustments. Socialist leadership still exhibits its remarkable appreciation of Austria's economic difficulties and the need to prevent an inflationary wage spiral, but, more than before, its policies involve the calculated risks of increased Communist influence among the workers and greater dissension within the lower ranks of the party's leadership. (A new party, the Union of Independents, will probably step up its efforts to gain labor support, but the Union is not a serious factor.) The workers have generally been dissatisfied with the real wage level for a considerable period of time, and the Socialist campaigns to roll back prices, in lieu of wage increases, have not had the desired success; a few scattered wage increases have already proved necessary.

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Despite this situation, Socialist leaders are presently negotiating a new legislative program on prices, profits, and cartel controls with a view to returning prices to the mid-1949 level. As it appears unlikely that this objective can be obtained by such a program, the workers are not likely to be placated in the long run, although they will probably acquiesce in the settlement for the next several months. Admonitions by labor leaders to the workers to accept their situation as the best obtainable at the present time and to "take their belts in" will not substitute for an increase in real wages. With the Communists eager to exploit labor's legitimate grievances, and with certain elements of the Socialist hierarchy presently resentful of the party's adherence to non-Marxist policies, the ability of the Socialist leaders to withstand these pressures will become ever more difficult without wage adjustments.

SWITZERLAND

B The recent rejection by Swiss voters of any further extension of Federal housing subsidies again emphasizes the desire of the traditionally conservative Swiss to reduce the over-all "emergency" powers of the Federal Government. The Swiss probably will be more and more sensitive to federal powers as long as the Swiss economy continues to return to normal. Actually, this latest rejection by the people will not result in any public hardship, because earlier federal action has succeeded in considerably reducing the postwar housing shortage in Switzerland. The stabilization of construction costs will enable private industry to provide Switzerland's annual requirement of 18,000 housing units, and the cooperative building associations will probably be able to provide adequately for the low-income family groups.

FRANCE

A The Bidault Government is not likely to fall in the immediate future, despite the Socialists' recent withdrawal from the Cabinet. The Socialist Party had been threatening to withdraw from the Government for several months, and found its opportunity when, after the 1950 budget was adopted, the Government refused to meet the Socialist demands for a bonus to the majority of workers.

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Although the Socialists seem to have moved a step closer to the view that the days of middle-of-the-road coalitions are numbered, they are probably as much opposed as ever to early elections. As they realize that consistent opposition on their part to the Government's policies would necessarily lead to elections soon, they are likely for the near future to vote or abstain in Parliament so as to avert the fall of the Government.

The Socialists probably consider the moment opportune to take up a strong position outside the Government for appealing to labor and building up their electoral strength. As labor regains collective bargaining opportunities after a decade of Government wage controls, the labor confederations will seek new members with greater determination, and the appeal of the Force Ouvriere (FO) will be stronger in proportion, should the Socialist Party's bargaining position improve. The present moment is all the more opportune for the Socialists because the Communist Party (PCF), by greater militancy in defense of political objectives, has undermined the appeal of the General Labor Confederation (CGT).

A

If the Chinese Communists supply Ho Chi Minh with considerable technical and material aid, the French position in Indochina will become militarily untenable in forthcoming months unless the French receive similar assistance from foreign sources. The French have already committed the major part of their available military strength in their effort to defeat HO, and could provide few reinforcements of men or materiel to meet an all-out offensive if it were supported by the type of aid which could be furnished by the Chinese Communist Army. The Government at Paris clearly recognizes the implications of the situation. It has indicated that it no longer considers the Indochinese affair solely of French concern, but one which affects all the Western Powers in view of the serious and widespread repercussions which would follow a collapse in Indochina.

One alternative to foreign military assistance given directly to the French in Indochina, would involve a successful strengthening of Bao Dai's economic, military and political position as an anti-Communist leader in Vietnam, and apparently would require a further relinquishment of French control and the progressive substitution of Bao Dai's own military forces for those French troops presently committed in Indochina. This alternative, which Bao Dai, himself appears to favor, offers a possible means for attracting non-Communist Vietnamese

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nationalists away from the camp of Communist-supported Ho Chi Minh.

In any event, the fall of Indochina would lead to the following results: Communism would expand further in Southeast Asia. The French Government, which already enjoys no better than a precarious stability, would fail to survive the inevitable strong public censure. French pride and prestige, just beginning to revive after the shock of the nation's military defeat in 1940, would suffer a dangerous blow detrimental to effective French participation in the North Atlantic Pact and the MDAP. The morale of the French Army, envisaged as the basis of the western European ground defense against aggression from the East, would be badly impaired.

In addition, French withdrawal from Indochina would be widely exploited by the French Communist Party as proof of Governmental incompetence and vindication of the Communist campaign for termination of the Indochinese war. This Communist exploitation together with the popular disillusionment would probably bring a limited increase of strength to the French Communist Party and would attract greater support of its efforts to disrupt the MDAP and the French armaments industry. In North Africa, the French would be faced with more importunate demands from the nationalists, and an increase in unrest.

For those reasons, the collapse of Indochina would have serious adverse effects on US interests, wherever those interests are involved with French political and military strength or prestige.

#### FRENCH AND SPANISH NORTH AND WEST AFRICA

B

There is a strong possibility that the skirmish which occurred last week on the border of Spanish Morocco and the International Zone of Tangier between a band of Moors and Spanish authorities was arranged, or was at least permitted to develop, by the Spanish authorities. The Spanish are certainly exploiting the incident to cast aspersions on the administration of the International Zone and justify the maintenance of a large Spanish army in Morocco.

Spanish authorities claim to have suppressed a native revolt by the capture, between Ceuta and the Tangier border, of thirteen Moors with about 30 rifles and 5,000 rounds of ammunition. General Varela, High Commissioner of Spain in Morocco, alleges that the Moors were to have staged

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an uprising planned by Cherif Si Ahmed ben Seddik, leader of a fanatical Moslem brotherhood, with headquarters in Tangier. General Varela is demanding that the Tangier authorities turn over Seddik to him. The opinion of the Tangier Committee of Control, however, is that Seddik should be tried in the International Zone, because of the possibility that he may become a martyr if extradited. This in turn would raise the danger of violent reactions by his followers all over Morocco.

It should be observed that General Varela's prestige will be increased if he is able to impose his will on the international Government of Tangier. Greatly exaggerated versions of the incident, including hints of Communist incitement, perhaps inspired by Varela himself, have been reported by the Spanish press and radio.

Both General Varela and the Spanish Army officers in Morocco would stand to gain by such a border incident at this time, as Varela, according to some reports, is scheduled to be relieved from his highly desirable post, and a substantial cut-back of the armed forces in Spanish Morocco is planned.

## BENELUX

B

Partial liberalization of trade under the October 1949 Benelux pre-Economic Union Agreement has resulted so far in greater trade among the Benelux countries, and has improved prospects for a comprehensive Benelux Economic Union by the target date of 1 July 1950. Belgian shipments to the Netherlands during November and December 1949 averaged approximately 20% of the total value of Belgian exports for those months in comparison to 14% for the first two months of 1949. For the same period, Dutch exports to Belgium averaged 16% of the total value of Dutch exports, compared to 11% for the first two months of 1949. Over half of the Belgian exports to the Netherlands consisted of consumer goods, particularly textiles, which the Dutch had partially freed in December. The improvement in Belgium's December index of production, which was partly a result of the increased Benelux trade, and the eventual complete freeing of Dutch import restrictions on Belgian textiles, probably will make the Belgians slightly more amenable to Dutch demands for a reduction in Belgian agricultural restrictions.

Of the remaining obstacles to a complete Economic Union, differences over agricultural policy are perhaps the

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most serious, and are expected to delay effective integration of agriculture for at least three years. A continuance of Belgium's restrictive policy on imports of Dutch agricultural goods, particularly the requirement for minimum prices, probably will cause the Dutch to press for closer Benelux ties with west Germany, which would serve as a market for the Dutch.

A solution of the transit trade problem with west Germany, and the return of the Benelux-German trade to more nearly the prewar triangular pattern which solved the Dutch payments problem with Belgium, would give added impetus and importance to the Benelux Union.

## BELGIUM

B

Belgium's "popular consultation" on King Leopold's status, scheduled for mid-March, is not expected to clarify the problem sufficiently to end the bitter postwar political wrangling, which has been intensified within the past few months. It is generally agreed, even privately by some Socialists, that the national vote in favor of Leopold's return will meet the 55% requirement which Leopold personally established. It is believed by neutral observers that Leopold will obtain between 55% and 60%. Although a slightly higher percentage seems possible, the difficulty centers around the expected rejection of Leopold in the Walloon (southern) area, and in Brussels, despite an expected majority vote in favor of his return in the Flemish (northern) section of the country. If the vote goes as anticipated, the contention of the opposition Socialists that Leopold is no longer "King of (all) the Belgians" will be pursued vigorously in the parliamentary consideration of the results of the "advisory" referendum.

Although the pro-Leopoldists have sufficient strength in Parliament to approve Leopold's return if 55% of the total national vote favors him, a clear rejection by the Walloons will cause most of the Liberals and many Catholics to seek a graceful way for the King to abdicate. Several events within the past month which may influence undecided voters to reject Leopold are: (1) a securities scandal involving prominent individuals who belong to the Catholic party; (2) the revelation that at the time of Leopold'smorganatic marriage during the War he assumed German titles which had not been used since 1920; and (3) the last-minute concession of the Catholics in Parliament that the referendum ballots will carry the statement that the vote as to whether King Leopold should "resume his constitutional rights" in no way involves the continuation of the monarchy.

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ITALY

B Italy is orienting its trade and its commercial policies toward Germany at the expense of its trade relations with France. Italian economic publications are stressing again the complementary nature of the Italian-German economies as compared to the competitive nature of the Italian-French economies. It was this economic circumstance which helped make Germany the most important prewar trade partner of Italy. Although still falling far short of prewar totals, Italian exports to Germany in the first eight months of 1949 increased to \$57 million, almost three times those of the same period in 1948. Imports to France in the first eight months of 1949 were \$35 million, slightly less than in the same period in 1948.

Italy appears now to oppose western European economic arrangements which do not include western Germany as one of the principals. As a consequence, the Franco-Italian Customs Union proposals are becoming a dead issue. Italy is showing reluctance to participate in the "Finebel" multilateral trade agreements being negotiated among Italy, France, Belgium, Netherlands, and Luxembourg unless western Germany is included. (Hitherto, France has been the chief opponent of western Germany's inclusion.) Italy, on the other hand, expresses considerable enthusiasm for the Hoffman proposals for the integration of western Europe, with which it is assumed western Germany will be associated.

B Leaders of the minority parties represented in the new Italian Government are suffering a loss of support among their followings. The rank and file of these parties are dissatisfied with the limited ability of their leaders to influence Government policy. In addition, the rank and file have long found difficulty in reconciling continued collaboration with the Christian Democrats with their own party ideologies.

Although there has been no decrease in the number of Cabinet posts allocated to the Italian Socialist Workers' and Republican Parties, the potentialities of the former for achieving its reformist program are severely restricted by the minor nature of the economic portfolios it holds. Moreover, in the case of the Republicans, two of the three ministries they hold (Foreign Affairs and Defense) are ones in which national policy has already been determined by Italy's participation in the ERP and the NAP. Still, any popular

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resentment over Italy's international status would be directed primarily against these Republican ministers.

The rank and file of the Socialist Workers' and Republican Parties have for some time been irritated at what they consider the complacency shown by their leaders toward increased clerical influence in the Government. A gap has been developing within both parties between the leaders and their followings, which feel that its representatives in the Government are more interested in maintaining themselves in office than in seeking to attain party objectives. This gap has already led some of the dissatisfied elements to leave the Socialist Workers' Party and participate in the formation of a new Socialist Party, outside the Government. If the two parties, as a consequence, should suffer an evident loss of popular strength at this spring's regional and local elections, they might feel obliged to withdraw from the Government, leaving their leaders, if they so desired, to remain in an independent capacity.

## SPAIN

C

A recent strike of Madrid taxi owners and drivers over a gasoline price increase is suggestive of the undercurrent of Spanish labor dissatisfaction. Strikes are illegal in Spain, and are attempted very rarely. The taxi strike occurred on 1-3 January, but was not reported in the Spanish press. The problem of the cabmen was turned over, after the strike, to the official Transport and Communications Syndicate, the sole legal channel through which the workers in this field are entitled to register their needs or grievances. Subsequently, authorities ordered three-fourths of Madrid's 4,500 taxis to remain out of service daily. This means that each driver will now have only a little over a day's work each week.