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WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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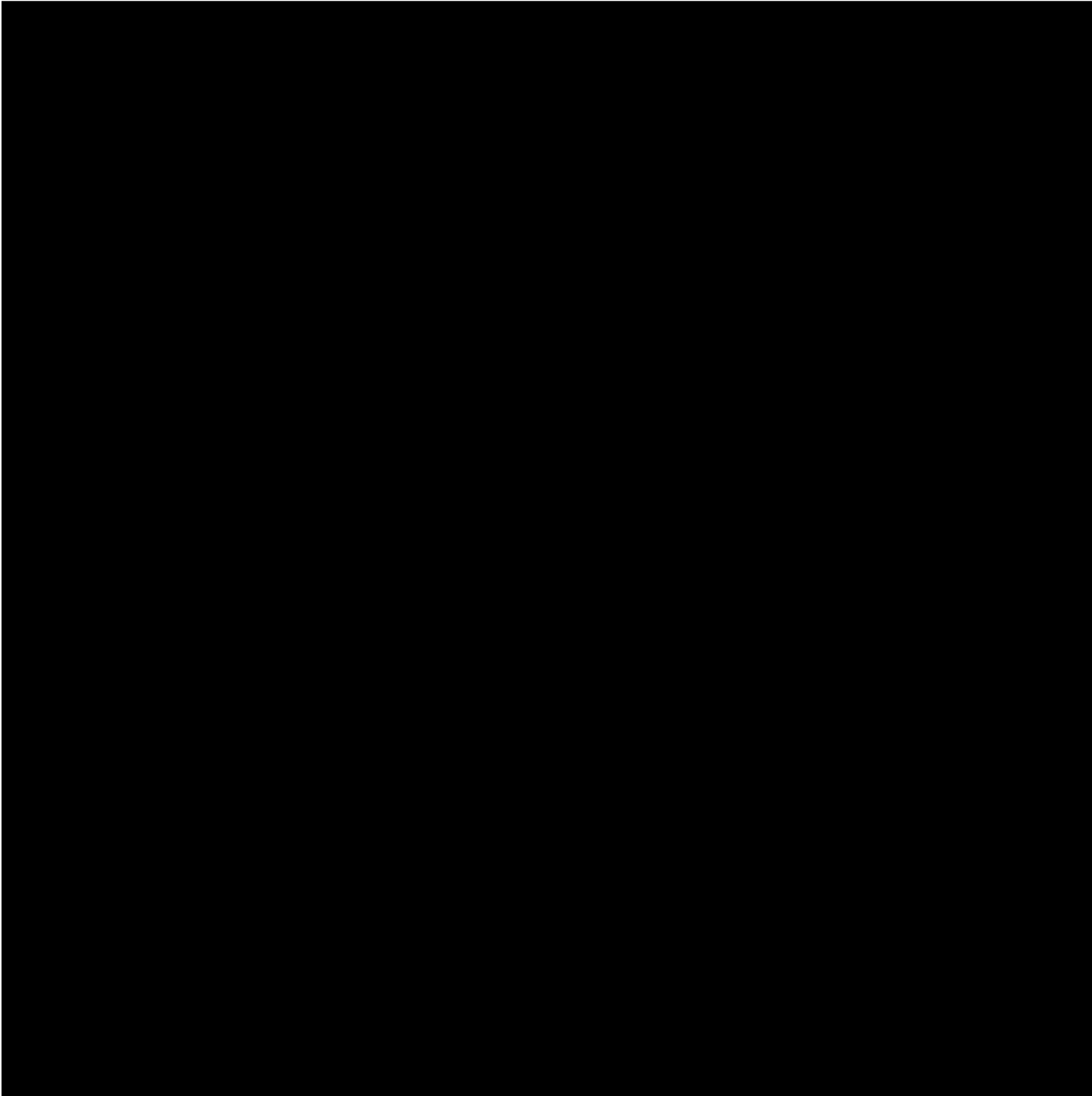
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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

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For week ending
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AUSTRIA

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Any moves by the Western Powers to ease the occupation burdens on Austria would necessarily entail consideration of the quadripartite control mechanism in Austria. Although this mechanism is flexible enough to allow some changes to be made by the three Western Powers alone, any changes that would constitute tripartite withdrawal from authorized four-power controls would improve the ability of the Soviet element to act unilaterally, should it fail to join the West in new policies.

Under existing agreements, members of the Allied Council (AC) for Austria may be either military or civilian; the High Commissioners in each zone may also be either military or civilian. Changes to civilian personnel would probably receive Austrian acclamation only if the Western Powers gave strong assurances of continued support for Austria and maintained their determination to achieve a treaty.

The various staffs of the AC, which correspond generally to the Austrian Governmental Ministries, are established by the Control Agreement and exercises some control functions over the Austrian counterparts. Without Soviet agreement, a Western withdrawal from these staff functions would not actually ease the occupation burdens on Austria on the governmental level, but would permit the USSR to exercise the authority of the staffs with no opposition. The same situation is applicable in regard to annual quadripartite determination of occupation costs, although the British and French could follow the present US practice of receiving its allocation but renouncing actual payment; the Austrians would undoubtedly approve such a move.

Western efforts to relax the occupation seemingly can be effective only in the western zones, where the degree of occupation control has already been reduced. A curtailment in requisitioning, suspension of military government courts, and increased authority for the Austrian police appear to be the type of measures which are feasible.

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B Austria will probably be reluctant to liberalize further its trade with western Europe until it has attained greater internal economic strength. To date, the Austrians have complied with the OEEC objectives of liberalizing intra-European trade, and have reduced quota restrictions on imports from participating countries by 54.2% of the 1948 volume. The Austrian Government, nevertheless, is now taking the stand that further relaxation of trade controls with western Europe must be limited, because of the trend of Austria's trade with the East. In this trade, Austria is presently being compelled to deal mostly through large commercial monopolies established by the Soviet Satellites, and has, consequently, stated that trade controls are necessary to maintain a bargaining position in such transactions.

Although this is the official policy explanation, there are also critical domestic considerations. A complete, or even partial, removal of import restrictions at this time would enlarge Austria's deficit with western Europe, and thus jeopardize its limited foreign exchange holdings. If restrictions should be further relaxed, imports from western Europe would tend to be at a high level, because of the high cost of Austrian production, and because of the profitable re-export opportunities to the East. At the same time, the vulnerability of Austrian industry to foreign competition would threaten to increase unemployment. Furthermore, any considerable relaxation of trade regulations would weaken the Austrian Government's control over internal production, and thereby enable the USSR to increase its already considerable purchases of industrial materiel in the Austrian inland market.

The Austrians are gravely concerned with the continued lag in their export trade. Inadequate industrial modernization, and continued high costs of production still hamper a real trade recovery. Although Austria is not likely to modify its trade policies now, responsible Austrians realize that, in the long run, the Austrian economy will be viable only with a greater economic integration of Europe.

FRANCE

A The French Government will take strong measures to counter the Communist efforts to disrupt the unloading and distribution of MDAP equipment. Although the Government will not be able to forestall all Communist attempts to obstruct the defense program, it will be able to prevent

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serious interference. Protective measures to cover operations at Cherbourg, the principal delivery port, will probably be adequate to prevent major sabotage.

The timing of the recent protest incidents at Toulon, Nice, and Marseille reveal that the French Communist Party (PCF) has organized special "commando" bands of Party militants and thugs, and has widely dispersed these groups throughout France so that they can go into action suddenly in the least-expected places. This complicates the problem of countering possible sabotage attempts, as police elements cannot be deployed in advance to prevent all such disturbances. The success of possible countermeasures will depend particularly on the decisiveness and speed with which action is taken, as was demonstrated during the recent strike at Marseille when the prefect immediately threatened to recall the work cards of striking longshoremen, and to hold up the normal unemployment indemnity, and did permit the temporary free hiring of dockers. Here the strikers returned to work after a very short period. On the other hand, in Nice a large gang of militants invaded the dock area and threw machinery they believed destined for Indochina into the water, while the prefect pleaded with them to "remain calm".

The superprefect system organized by former Minister of Interior Moch, which functioned so effectively in checking the 1948 strikes, will probably again form the basis of plans for controlling Communist-led subversive activities, but the tactics have not been disclosed. Workers in the railroads, arsenals, and other nationalized industries will be deterred from promoting the Communist campaign by the Government's warning that anyone refusing to perform his regular duties will be subject to dismissal.

The Government's will to crack down on Communist sabotage of the French defense program is strengthened by several factors: (1) the determination to show that the Government, despite present political instability, has firm control of the internal situation and that the Communist hold over French labor has been greatly weakened, even though labor discontent continues; (2) the strong Governmental objective to re-equip and modernize the French military forces; and (3) the fear that critics of France's projected role in MDAP might succeed in cutting off arms shipments, in the event of large scale Communist interference, on the pretext of preventing materiel from falling into Communist hands.

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B Prospective French "anti-trust" legislation will tend on balance to promote, not overcome, high price levels and business practices harmful both to national economic stability and to the cause of foreign trade liberalization. Thus, the Government, which is expected to defend the legislation in Parliament, will in this respect work against rather than toward US objectives in western Europe. The French public seems almost totally unaware of the substantial influence of these agreements on retail price levels. The probable alignment of leftist with rightist deputies in support of an obviously "phony" anti-trust bill will demonstrate that basic obstacles face US efforts to modify French institutions in order to help solve long-term economic problems.

Agreements among competitors in France are widespread and traditional, and have long been fostered by Government policies. Even labor has approved the principle of cartel arrangements as a national tradition, accepting the special protection for management's interests as complementing safeguards for labor against interruptions of employment. Such agreements control manufacturers', wholesalers', and retailers' prices and markets, and limit quantity as well as improvement in quality. Hence these agreements have served powerfully to prolong the postwar inflation in France, and have contributed importantly both to the lag in real wages and to the income disparities underlying labor's chronic unrest. They also encourage business to resist many of the concrete steps necessary to increase productivity and rationalize production. As a result, business demands that if additional governmental trade barriers are to be removed, it be allowed to strengthen private international cartels, in order to maintain effective protection against foreign competition.

The anti-trust bill has been termed unobjectionable by spokesmen for business and, as law, would probably help rather than hinder business to develop cartels for its own special ends. The bill itself lays down no standards for distinguishing between trusts which, on balance, favor, and those which injure, the public interest. It does not even establish an agency with adequate power to proceed against trusts which may be harmful to the public interest. The proposed "National Commission for the Control of Private Trade Agreements" will only investigate and recommend; real power will rest with the Minister of Finance and Economic Affairs. Furthermore, registration of cartels would not be compulsory, and a cartel which registered voluntarily and received official sanction would be in a position to request a Government decree that the agreement among its members must be observed by all companies engaged in the same economic activity.

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It is clear, moreover, that the Government officials promoting this legislation are not intent upon effecting a reduction of price levels. The cartel commission's power merely "to examine" the incidence of agreements on prices and on purchasing power was preferred to a proposal of the Monnet Modernization Plan officials, who were convinced of the adverse effects of price-fixing. These officials had urged that a semi-autonomous, quasi-judicial body be established with power to void harmful agreements and penalize the participants.

FRENCH AND SPANISH NORTH AND WEST AFRICA

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The recent irregular actions of the Spanish Zone authorities appear to be of a piece with the outcry surrounding the alleged Arab uprising of 4 February, and probably reflect the personal policy of General Varela, High Commissioner of Spain in Morocco, more than that of the Spanish Government. Madrid, however, is no doubt still piqued at having been forced in 1945 to give up control of Tangier, seized during the war, and has shown no inclination to curb Varela. Two instances of interference by Spanish Zone police in the internal affairs of Tangier are particularly flagrant and damaging to the prestige of the international administration. First, Spanish police agents without the knowledge of Tangier authorities entered the International Zone and made off with the personal property of an expelled Spanish national. Second, Spanish agents virtually kidnapped five Spanish political refugees and took them from Tangier to Spain, where they were imprisoned. One confessed agent in this affair claims he acted officially under the orders of the Spanish Director of Security at Tetuan; he has been jailed on a charge of carrying arms illegally, and interfering with the public functions of the International Zone. Concurrently, Spanish border police have stopped US and other official cars leaving the International Zone, and, regardless of the diplomatic status of the occupants, have subjected the cars to harassing searches, although persons and pouches have not been touched. The incident of 4 February is given as the reason for these searches, which have continued despite a written protest by the US Minister to General Varela. For the second time this year, the Tangier Committee of Control, now headed by the US Minister, may be convened in extraordinary session to consider a situation resulting from Spanish policies.

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Flagging nationalism throughout French North Africa has been given a shot in the arm by an Egyptian act inimical to the French. After the Egyptian nationalistic Wafd Party returned to power last month, its leader, Prime Minister Nahas Pasha, openly telegraphed to Messali Hadj, fiery and mystical Algerian nationalist leader, a thinly-veiled appeal to revolt, urging other Arab states to assist Algeria in attaining "complete independence and entire liberty." The influence of the Moroccan nationalist leader Abd-el-Krim in Cairo can be detected in this latest unfriendly gesture of the Egyptian Government leveled at France's position in North Africa. Present and previous Egyptian Governments have indulged in similar hostile activity, questioning French hegemony in North Africa, and echoing the Soviet line urging early "colonial liberation" in Africa.

THE NETHERLANDS

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The Netherlands desire for the resumption of close ties with western Germany will be at least partially met by the expansion of Dutch-German trade under a new agreement signed on 2 February. This agreement calls for an increase in the aggregate value of trade between the two countries, to be achieved in part by a substantial liberalization of Dutch imports from Germany. Although the recent favorable Dutch balance with Germany may increase within the next few months, the Netherlands is expected to have a trade deficit with Germany by the time the trade agreement expires on 1 September 1950. This probably will result from: (1) Dutch payments for capital goods which have been deferred until delivery; (2) use of the Indonesian credit in German marks held by the Netherlands for Indonesia; and (3) closer surveillance of transit trade to prevent the inclusion of non-Dutch goods in trade agreement accounts.

Along with the trade negotiations, some agreement was reached on the Rhine shipping problem, with Germany recognizing the right of the Dutch to engage in foreign carrying trade on Germany's inland waterways. The formalizing of agreements regarding the use of the Rhine, however, and a solution of the problem of control of the currencies used in paying for inland shipments probably will take considerable time, despite the recent agreement. The Dutch necessity for German trade according to the pattern of prewar years, when the Dutch had a net favorable balance with Germany from invisible receipts to pay its deficit with Belgium, probably will cause the Netherlands to press for increased Dutch-German trade and commercial ties.

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ITALY

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The Italian Government will face difficulty in financing the reform and investment program which it is belatedly planning, and in balancing political and economic demands in implementation of the program.

The plan has six components, to which priorities have been assigned. The first three are motivated primarily by socio-political necessities. First priority has been given to agrarian reform. The peasant riots have finally forced the Government to take action, and the projected reforms will require the expenditure of about \$1 billion over the next few years. Second priority has been given to public works to alleviate conditions in southern Italy and Sicily, for which about \$200 million a year for the next ten years is being programmed. Third priority has been given to badly-needed low-cost housing; the present inadequate allocation of about \$100 million a year is to be expanded.

Priorities four to six are given to investments in industrial and associated fields. The importance to the economy of such investment has been made apparent by the decline of the export trade during the past six months, and by the recessionary trend which has become more evident in the last several months. Over \$1 billion has been programmed for 1950-51 alone to expand industrial production and improve Italy's competitive position in world markets. The construction of thermo-electric plants, expansion of metallurgical plants, and modernization of industrial equipment are included in these programs.

The gross investment, however, required for these six projects (over and above normal budgetary requirements) would amount to almost 20% of the estimated national income. Even with aid from the lira counterpart fund, it is doubtful that domestic funds can be found without having recourse to inflationary financing, to which the Government is strongly opposed. Therefore, it is probable, in view of the order of priorities, that the industrial investment necessary to reduce unemployment, to increase the availability of capital and consumer goods, and to absorb the increased consumer spending power injected into the economy by the first three programs, will be slighted. Without industrial investment, however, not only will the productive capacity of Italy be left unimproved, but also the reforms of the first three priorities will prove more difficult of implementation.

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The feeling in Italy of frustration and futility in the event of an East-West conflict is being intensified as the result of the US decision to make the H-bomb; it will lead to an extension of neutrality sentiment among the Italian people. Italians, except for strongly pro-US forces and militantly pro-Soviet elements, have for some time been apathetic at the bleak prospects afforded by a third world war which neither victor nor vanquished would survive.

As the prodigious strength of the two protagonists grows (Italians expect the USSR as well as the US to have the H-bomb in the not-too-distant future), and Italy's inability to tip the balance either way becomes more apparent, the majority of Italians will tend to think increasingly in terms of neutrality. Such thinking is not altered by the prospect that Italy will be overrun by the Soviet invader; Italians believe that whatever role Italy plays, the country would in any case eventually be liberated by the US. Many Italians are willing to accept this line of reasoning in order to banish from their minds the spectre of catastrophic destruction.

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