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WESTERN EUROPE DIVISION

OFFICE OF REPORTS AND ESTIMATES

CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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DATE: 21 March 1950

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WEEKLY SUMMARY

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AUSTRIA

B The strained wage-price relationship in Austria would be further aggravated if a probable new currency devaluation takes place. A further reduction in the official value of the schilling is presaged by the failure of the Austrian devaluation program of November 1949. The US is pressing for a unitary rate at this time, which, to be realistic, would have to be from 26 to 29 schillings to the dollar, as compared with the present rate of 21.36 applicable to ECA imports and 14.40 for "cost of living" imports. A further devaluation is necessary to allow Austria to meet competition in foreign markets. Internally, however, the effect of devaluation would not be favorable. Wages have failed to keep pace with rising living costs after the last devaluation. A new lowering of the schilling would have an inflationary effect by raising the cost of imports. Although a reduction in subsidies for imports of consumer goods has been a long-term objective, of the Austrian Government, further devaluation of the schilling would bring pressures for a continuance of such subsidies, both to restrain rises in the cost of living and in the cost of production of export goods.

It appears inevitable that a further devaluation of the schilling would bring wage-price and budgetary adjustments. The 1950 budget has already been revised once, as a result of adjustments necessitated by the November 1949 devaluation. A new devaluation would require raising the amount of schillings deposited to the ECA counterpart fund, as well as changing other budgetary estimates.

FRANCE

B Despite the evident failure of French labor's current strike efforts, new strike waves will probably emerge within the next few months. In reaction to the restoration of collective bargaining, management is taking a firmer stand against labor than was at first anticipated, and the organization of employers (CNPF) is now determined that its members shall limit wage increases to 5% in the Paris region and 8% in the provinces. These increases represent on the average less than half of what even the most moderate unions are asking, after retreating substantially from their original demands.

Throughout the country, strikers now include some employees of public utilities; a large number of metalworkers, mostly in the provinces; all Communist-led dockers and some others; textile, building, chemical and insurance workers; and social security workers. In many of these strike sectors, back-to-work movements are growing, but chiefly as a result of inability to maintain the strike, and not because the workers are appeased. Many workers were unprepared, both financially and mentally, for prolonged or violent strike action, and are temporarily accepting what they consider to be meager offerings on the part of industry and the Government.

Nevertheless, union leaders are determined to force a reduction in the wage-price disparity, as evidenced by their repeated calls for strike outbreaks all over France, despite the fact that almost everyone except the union leaders admits that labor has little chance of getting more than management offers in original bargaining.

The stern opposition to labor's legitimate economic demands, when the restoration of collective bargaining offered the long-awaited promise of remedial action, will make the workers increasingly receptive to Communist propaganda, which will reach new heights with the arrival of US arms aid next month.

BELGIUM

A The fall of the Belgian Catholic-Liberal Cabinet indicates not only the bitter political and ethnic division of the country on the issue of King Leopold's status, but also the complete preoccupation of Belgian officials with the question, to the detriment of other domestic and international problems. The Catholic Party leaders may soon be able to form a Cabinet (possibly including Flemish Liberals) designed solely to obtain parliamentary approval of King Leopold's return, and they may be successful in accomplishing this sole objective. If, however, as seems likely, Leopold does return, it will be some time before the controversy subsides sufficiently for a relatively stable Belgian Government to devote a proper amount of time to other issues.

The short-range effects of the royal controversy are certainly a period of Government instability, walk-out strikes, and mounting charges and countercharges among the political parties. The moderates from the three non-Communist political parties express increasing anxiety that the permanent divisive effects of the controversy will be serious, and they are showing greater interest in having the King return merely to clear his name, and then abdicate in favor of his eldest son, Prince Boudouin. The political leaders closest to Leopold are unlikely, however, to advise such a course.

In the event of Leopold's restoration, the Catholics probably would have difficulty forming a stable Government, and there is the possibility of new elections preceded by approximately six weeks under a "caretaker" government. Instability would then continue if the Catholics did not receive an absolute parliamentary majority.

The longer-range results, especially if Leopold attempts to exert the personal influence in Government affairs he did before the War, probably would include considerably less unanimity on foreign affairs among the three major parties than heretofore. The postwar Walloon campaign to obtain decentralization of Government control, until now carried on by small and ineffective groups, probably would receive more serious support, and the resulting Flemish-Walloon conflict, enervating to the central Government, undoubtedly would be carried into all phases of Belgian national life.

ITALY

B The dangerous pessimism in some Italian business circles would be deepened if the removal on 1 March of all restrictions on the industrial use of electricity fails to bring a rise in industrial production indices. This pessimism has been observed, despite assurances by the Government that all is well. Businessmen point to the decline in exports, the drop in wholesale prices, and the increased inventories as indications of a trend toward recession.

Industrial production indices have also been lower, compared to the May-July 1949 averages, but they have been inconclusive because of electric power restrictions, which have been in force since the end of July 1949, and perhaps because of seasonal factors. The pessimistic maintain, however, that the indices dropped because of a general decline in consumer demand. This interpretation would gain credence if the indices do not rise in March; the resultant unhealthy economic atmosphere would work against the ERP in Italy.

B

The dangers and difficulties of eliminating inefficient heavy industry in Italy are illustrated by the recent violent strikes in the Venice area. A delay in the payments of workers at the Breda plant at Porto Marghera, causing the workers to fear a closedown of the plant, enabled Communist union leaders to launch a strike provoking violence and bloodshed. This, in turn, was the excuse for a Communist-led general strike in the Venetian area, affecting more than 10% of Italy's population. The failure of the Communists to win the support of the non-Communist labor federations for this demonstration weakened it only slightly because it is precisely in the uneconomic, over-staffed heavy industries that the Communists have best maintained their hold against the inroads of the non-Communist federations.

During the period of Fascist "self sufficiency" and military adventures, many plants for the manufacture of arms and heavy equipment were developed, with strong monetary support of the national Government, despite Italy's dearth of natural resources. The gradual elimination of these uneconomic units is essential to the achievement of Italian economic viability. This would mean at least a short-run increase in unemployment. Until more capital is available to develop industry better suited to Italian resources and world markets than the war materiel industry, the reduction in the labor force of these uneconomic enterprises will continue to provide a live issue to the Communist-led General Confederation of Labor.

Aware that these industries can not pay their way with the present trickle of orders, and yet loath to increase unemployment, the Government will urge that the plants be used for the manufacture in Italy of war materiel under MDAP. Although the ECA goal of reorganizing Italian industry along more rational lines will not be advanced thereby, the Government will insist upon the advantage of using the plants to gain a breathing spell, during which it would hope to develop alternative fields of employment.