

~~SECRET~~

WESTERN EUROPE DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

NOTICE: This document is a working paper, NOT an official CIA issuance. It has been co-ordinated within ORE, but not with the IAC Agencies. It represents current thinking by specialists in CIA, and is designed for use by others engaged in similar or overlapping studies. The opinions expressed herein may be revised before final and official publication. It is intended solely for the information of the addressee and not for further dissemination.

DATE: 11 April 1950

DOCUMENT NO. 2
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE: 10-29-79 REVIEWER: 372044

WESTERN EUROPE DIVISION

WEEKLY SUMMARY

VOL. VI - No. 14
25X6A

For week ending
11 April 1950

A



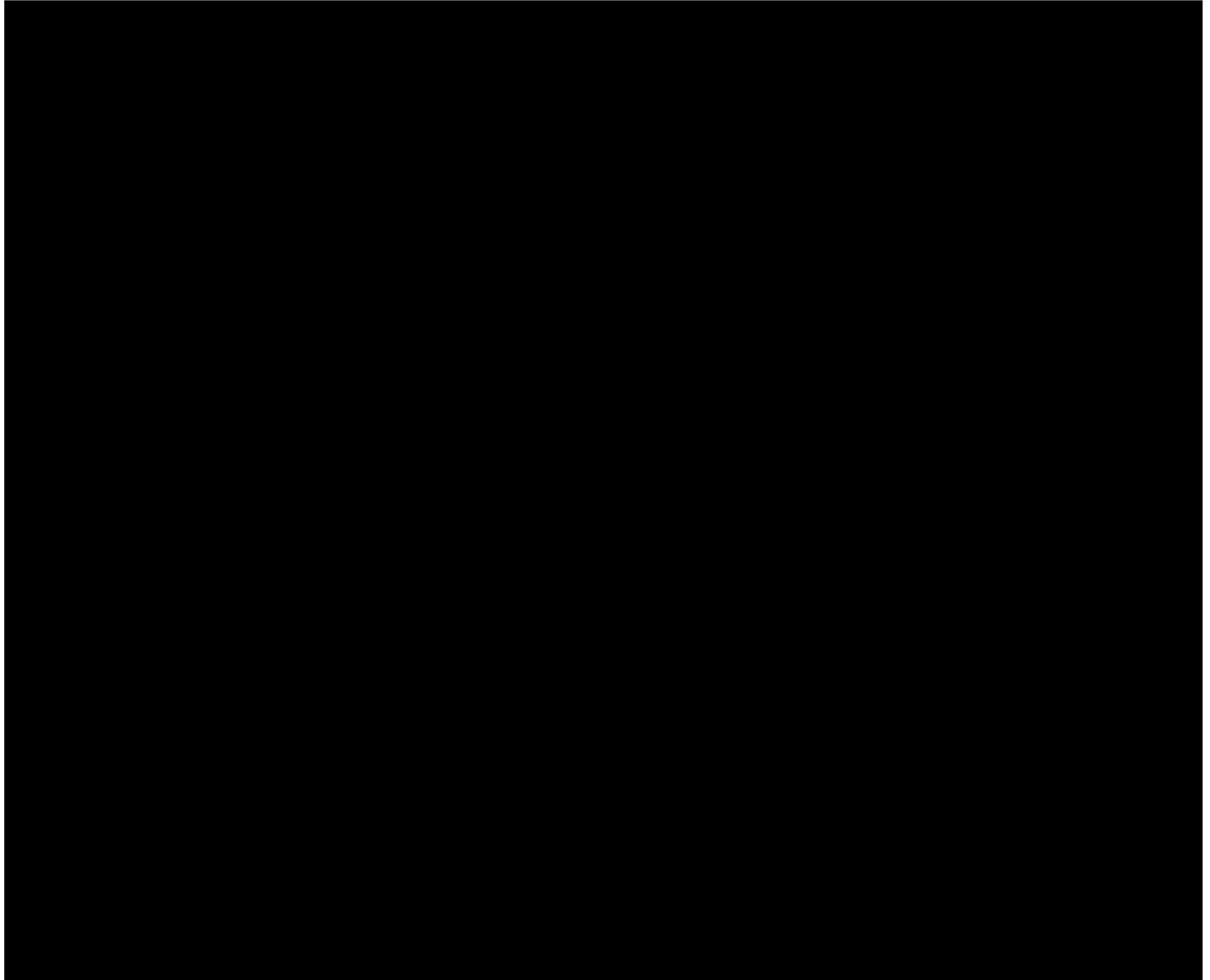
B

- 1 -

~~SECRET~~

~~SECRET~~

25X6A



AUSTRIA

B Recent Soviet interest in communication facilities in Austria suggests that the USSR does not contemplate an early withdrawal of its forces from Austria. At the same time, newly-acquired telephone facilities appear to be calculated to improve the Soviet capabilities for zonal border control. The USSR is evidencing a desire to get away from sharing telecommunication facilities with Austria, and from using facilities routed through areas controlled by other occupation powers. It is also trying to extend Soviet-controlled telephone lines along the western borders of the Soviet zone and to tie in these lines more closely with facilities in Hungary.

- 2 -

~~SECRET~~

S E C R E T

Last fall, the Soviet element pressured the Austrian Government into re-activating a former German communication line from St. Poelten into Hungary. This line does not go through Vienna, and functions for the exclusive use of the Soviet occupation force. Early this year, the Soviet element required the Austrians to extend this line to Ennsdorf, on the US-Soviet zone border, and more recently has demanded its extension north along the zonal boundary to points across from Bavaria. Currently, the Soviet element is demanding that all communication facilities servicing its border control posts, formerly routed through the Linz exchange in the US zone, be routed through lines within the Soviet zone having no Austrian subscribers.

In the southeast section of its zone, the Soviet element has demanded that the Austrian Government restore a former German telephone line connecting Oberwart, in southern Burgenland near the British zonal boundary, and Koeszeg in Hungary. Soviet occupation officials have also called for cable plans of the Guessing and Jennersdorf area, particularly of the lines serving gendarmerie and customs offices. This area is in the southern tip of the Soviet zone, a narrow strip between the British zone and Hungary extending to the Yugoslav border. Soviet requests for cable plans of an area have, in previous cases, soon resulted in demands for the re-activation, or creation, of lines having no Austrian subscribers.

It is notable that these Soviet moves have only occurred after almost five years of quadripartite occupation of Austria, and are simultaneous with Soviet intransigence on the four remaining unagreed treaty articles, which are of relatively small importance to the Soviet Union.

B

Developing maladjustments of the Austrian banking system may be partially arrested by the proposed new credit control law. Over the past two and a half years, commercial banks have been violating good banking practice by the amounts, types, and terms of credit granted. Yet it is imperative that Austria possess a sound banking system, even before the salutary influence of ECA is terminated in 1952. Sound banking required that commercial banks restrict their loans principally to the short-term variety, rather than intermediate or long-term. This principle appears to have been disregarded by the Austrian commercial banks, which, by January 1950, had

- 3 -

~~S E C R E T~~

S E C R E T

granted 271 million schillings in credits of one to five years, as contrasted with 450 million schillings in credits of more than five years.

In addition, the bulk of credit granted in the form of large loans has been to a relatively small group of privileged concerns, in violation of the rule of diversification of risk. This concentration of credit has caused an acute shortage of funds for trades and small industries.

The Austrians expect that a substantial step in the right direction will be taken by contemplated legislation on credit control, which envisages: (1) limiting bank liability to a fixed ratio of paid-in-capital plus specified reserves; (2) requiring banks to maintain a specified proportion of their reserves in liquid funds; (3) limiting credit to individual users; (4) establishing adequate loans procedures; and (5) increasing bank supervision by Governmental authorities.

FRANCE

A

A French Assembly resolution of 28 March calling on the Government to ease credit restrictions could sacrifice the vital gains being made against inflation in France. The steady rise of prices from July 1949 to February 1950 has begun to level off, and the transition to collective bargaining has been started without an appreciable addition to existing inflationary pressures. Labor's deep resentment of its small strike gains, however, is likely to reinforce its further wage demands in the forthcoming contract bargaining. Even more decisive for the course of prices in the coming months will be the Government's credit and fiscal policies.

The recent Assembly resolution asked the Government to raise Bank of France rediscount ceilings sufficiently to permit an increase of credit to small and medium enterprises, which would assist them in meeting higher tax and wage payments. In the second quarter of 1949, without any such formal lifting of credit ceilings, the Bank of France applied the regulations loosely, a policy which greatly increased the inflationary dangers in the last half of the year.

Despite ECA's persistent pressure on the French against any relaxation of safeguards risking a repetition of this sequence of events, the Government will probably not be able to resist business' growing campaign for easier credit. The Radical Socialists, who are sponsoring this demand, can be expected to carry greater weight in the Government on

- 4 -

~~S E C R E T~~

S E C R E T

this issue since the departure of the Socialists. Moreover, the slowly mounting unemployment total (though still negligible) will lend credence to new warnings of excessive "deflation", warnings which were the immediate impetus in the spring of 1949 to the relaxation of credit controls by the Bank of France.

B The French Government will continue to favor a cautious rapprochement with Germany despite cool popular reaction to Chancellor Adenauer's recent "trial balloon" proposals for a Franco-German union. Having successfully negotiated accords with the Saar despite strong German objections, France will now take more cognizance of German attitudes and will endeavor to avoid further incidents which might excite German sensitivity. The French Foreign Office plans to advise the Saar not to be hasty in accepting the invitation tendered it by the Council of Europe, hoping that by allowing the German Government more time to maneuver, the Bundestag can be persuaded that Germany should accept an associate membership in the Council.

ITALY .

B The weakened state of Socialist forces in Italy is emphasized by the ultimatum of 19 March from the Conference of International Socialist Parties (COMISCO) to the Italian Socialist Workers Party (PSLI) to unify with the Unitary Socialist Party (PSU) before 1 June, or face disqualification as the official Italian Socialist Party. The factors which have brought about this weakness would tend to make any unification achieved through compliance with the ultimatum largely superficial and unlikely to result in a real rejuvenation of Socialist forces.

Several obstacles which have heretofore prevented the unification of the PSLI and the Romita-Silone PSU will continue to impede such a merger. Among these obstacles are: (1) a conflict of personalities and a divergence of opinion among the leaders of both parties as to the objectives of the Government's foreign policy; consequently (2) the absence of a sincere desire on the part of either party to achieve unity; and (3) the unwillingness of PSLI to accede to the demand of PSU that it withdraw from the Government before unification negotiations.

Because of the fact that it has not held any of the important economic posts in the Cabinet and its participation has been strongly opposed by both the right and left wings of

S E C R E T

S E C R E T

the majority Christian Democrats, the PSLI has been unable to exert any appreciable influence on the Government's program of socio-economic reform. There is not much likelihood that a unified Socialist party outside the Government would be more effective as a force for reform. Despite the fact that it would have considerably greater popular support than either the PSLI or PSU alone, disagreement among party leaders as to the consolidated party's position in matters of foreign policy, personal friction between Romita and Saragat, and constant fear by each faction of domination by the other would probably prevent the new party from offering strong, constructive opposition to those aspects of the Government's program which it considered unprogressive.

Only if Premier De Gasperi were to offer the new party posts out of proportion to its strength and importance, would it have reasonably good prospects of being an effective force. In view of the many pressures within the Christian Democratic Party to reduce the participation of the minor parties in the Government, such a gesture from the Prime Minister seems most improbable.

B

A split in the Italian Communist Party (PCI) and the formation of a nationalist (non-Cominform) Communist party continues to be a possibility despite the recent Party successes. Concomitant with its accent on violence and direct action tactics, the PCI is purging the ranks of its local leaders in Turin, Milan, and other Italian cities where undisciplined or deviationist tendencies have been expressed. At the same time some of these purged elements are seeking to form a nationalist party.

The potential of the emerging group is at present quite limited. No major Communist leader has yet been clearly identified with these deviationists. Also, as long as the PCI can maintain its effectiveness of the past several months, the nationalist group will not have a large appeal. If, however, the Italian Government can successfully cope with the developing Communist offensive, the tendency of the PCI to divide over the issue of nationalism versus Stalinism would be reinforced.

- 6 -

~~S E C R E T~~

S E C R E T

SPAIN

B

The military parade in Madrid on 1 April,
celebrating Franco's victory in the Spanish Civil War,
strikingly revealed the Generalissimo's decline in
popularity and prestige, even as it confirmed his ability
to remain in power over an exhausted nation. A year ago
it was announced that the anniversary parade would hence-
forth be held only every ten years, but evidently Franco
found it necessary to emphasize the fact that he is still
in control. Spectators were apathetic when Franco arrived
at the reviewing stand, and the diplomatic corps was
sparingly represented at the event.

- 7 -

~~S E C R E T~~

SPECIAL ARTICLE

PREMIER BIDAULT'S PRODUCTIVITY BONUS PROPOSAL

T

Premier Bidault's recent recommendation of bonuses geared to productive efficiency will probably not help greatly to reconcile the views of business and labor toward wage increases, but it already has done much to focus public attention on the chief problem besetting French production. This problem is to overcome the considerable obstacles to a further rapid increase in national productivity (output per man-hour in all economic activities) as the principal requirement for a steady rise in living standards. Although France had succeeded by the beginning of 1950 in nearly regaining its 1938 rate of production, it must substantially better that rate over the next few years. In the 1930's, France's economy was declining, with serious social and political consequences. Moreover, some other European nations, with which France will now be in increasing trade competition, are raising their respective levels of productivity faster than France. US industrial productivity, which in 1938 was somewhat more than three times that of France, is now probably nearer four times that level, and yet France has made its best record in this type of economic activity.

The Premier's bonus proposal appeared to be a skillful effort to accommodate the sharply divergent wage views of labor, private management, and the administrations of the nationalized industries. It might have been expected to:

- (1) appease the workers somewhat and also afford their leaders a pretext for abandoning the now hopeless strike effort;
- (2) be acceptable to management, because it probably would add at the most 3% to the recent 5-6% increase in basic wages, while tending to boost efficiency; and (3) enable the Government to carry out politically desirable economies in the nationalized industries. The Government is likely, however, to be disappointed in these expectations, except insofar as some non-Communist labor leaders have grasped Bidault's proposal as an opportunity for terminating strikes and as the basis for further wage discussions. Small businessmen, who are greatly in the majority, are generally unimpressed with the need to increase productivity, and after the clear-cut failure of the recent strikes, business as a whole is all the more sure of its ability to hold the line on wages. Management will therefore tend to profess a desire to cut prices, especially on exports, rather than commit itself to a bonus which would raise its wage costs. The workers themselves, far from being appeased, are deeply dissatisfied with the slight concessions to their

SECRET

demands recently made or offered, and will object with increasing vigor that Bidault's plan, as applied to many of the nationalized industries, would necessarily result in reductions in employment as productivity is increased.

The public discussion resulting from Bidault's statement will, however, give considerable assistance to ECA's long-term efforts to effect a profound modification of French attitudes toward productivity. ECA has been expanding its "Technical Assistance" program, under which teams of French workers inspect production in US factories, and has also been emphasizing economic integration partly to speed up an improvement in western Europe's productivity. The French teams have in general returned to their jobs convinced that French productive efficiency must be greatly boosted, but their influence has so far been small. Furthermore, most prominent leaders in business and in the Government give only lip service to ECA's appeal for economic integration, insisting that it must follow, not precede, further improvement in productivity.

There is no question but that the French nation must become generally aware of the productivity problem and acquire the will to tackle it. Even in the plants there is widespread indifference to the problem and little cooperation toward its solution between labor and management. French workers can hope to have their real wages raised substantially only if steady improvement in productivity is realized, but many are still convinced that greater efficiency can lead only to unemployment. The low wages of the majority, moreover, leave them highly susceptible to Communist propaganda to the effect that a drive for higher productivity is a capitalist trick to exploit labor without granting compensating increases in wages.

Even should these basic attitudes be rapidly modified, however, the necessary major technical and institutional reforms will be implemented only gradually, and there is considerable doubt whether they can be carried far enough in the next two years to permit a steady rise in French living standards after ECA aid is ended. The capital equipment necessary to modern efficient production has been acquired in increasing volume, but considerable investment funds have been spent on less economical equipment, such as steam locomotives, and existing facilities are often far from being used to best advantage. Furthermore, the average French production unit is relatively small and resists specialization and research. The French entrepreneur has a traditional preference for security, which causes him to restrict his operations and insist on a large profit per unit of output. Finally, current Government policies are inadequate to force price reductions by curbing the price-fixing and allocations of production, which are freely practiced by trade associations in France and tend to perpetuate the many inefficient enterprises.

SECRET