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For week ending 9 May 1950

10 May 1950

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Included in this issue is this special article:

“Consequences of the Possible Departure of De Gasperi from the Italian Government”.

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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

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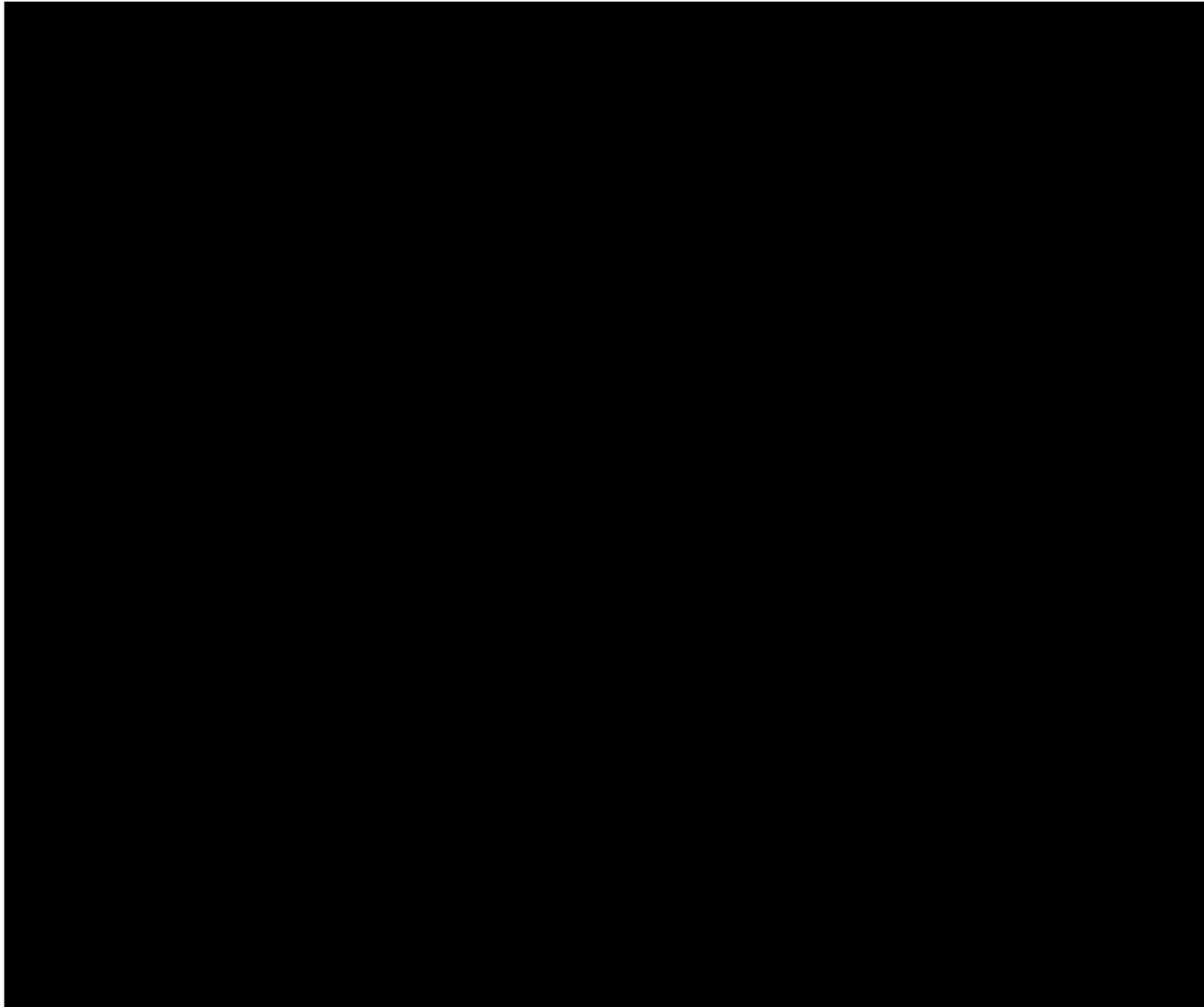
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AUSTRIA

A

The current phase of the Austrian treaty negotiations reinforces the belief that the conclusion of a treaty for Austria probably depends on a broader agreement between the West and the USSR than one on the issues involved in the treaty itself. The Soviet tactics at the last two deputies' meetings were clearly designed to protract the talks indefinitely. In his search for an excuse to delay the treaty, the Soviet Deputy avoided the negotiations on payment by Austria for services and supplies rendered by the USSR in 1945 (Article 48 bis), but shifted to

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still another pretext. In the deputies' meeting of 26 April, after a sustained propaganda campaign by the Soviet occupation element and the Communist Party within Austria accusing the Austrians of violating Allied Council decisions on denazification and demilitarization, the Soviet deputy proposed amendment of the text of Article 9 on denazification within Austria, which had already been agreed upon. He also evaded a definite Western proposal to settle the outstanding articles provided that Article 48 bis would likewise be decided. The Soviet deputy used a 4 May meeting, called at his special request, as a propaganda forum to repeat the charge that, abetted by the Western Powers, Austria has evaded denazification and demilitarization agreements.

Although the Austrians will continue to make all efforts to secure a treaty for their country, they realize that until the USSR is ready for one, Austria will be subject to continued occupation. Facing this prospect, the Western Powers will probably direct their main efforts toward the amelioration of occupation burdens, without diminishing the authority of the Allied Council or weakening their own position in relation to the Soviet element.

B

The moderate recommendations of the International Monetary Fund (IMF) mission will have to be supplemented by other measures before there is a complete solution of Austria's foreign exchange problem. In order to arrest the deterioration which has occurred in Austria's foreign exchange position since the devaluation of November 1949, the IMF now proposes that Austria should: (1) eliminate the rate of 14.40 schillings to the dollar which is applicable to the importation of some basic consumer goods, (2) at an appropriate time during 1950-51, make a slight adjustment of the effective schilling rate of 21.36 and the premium rate of 26, and (3) end all subsidies, except those on grains and fertilizer, by July 1950. Through this program, the IMF expects Austria to be able to reduce barter trade and discourage retention quotas and other special devices designed to maintain multiple rates. Although these steps are in the right direction, they alone would not effect a substantial improvement in Austria's exports or stop the drain on Austria's foreign exchange reserves because they do not bring the official value of the schilling into line with its actual purchasing power.

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FRANCE

B

The trade agreement between France and west Germany, a step in the direction of trade liberalization, may not increase commerce as much as expected, but apparently is already helping to eliminate the heavy French deficit in this trade. It was anticipated that before its expiration on 30 June 1950, the agreement, which became effective 10 February 1950, would build up the volume of Franco-German trade to \$500 million a year, whereas the rate attained in February and March 1950 was only \$370 million (about \$20 million above the 1949 figure). The French deficit in trade with Germany, however, was cut in these two months from \$82 million for 1949 to an annual rate of about \$26 million. The agreement anticipated that the steady rise of this deficit since 1946 would be reversed, and a trade balance would be achieved.

Since the war, Germany has become the second most important source of French imports--ranking next below the US--but France's growing need of foreign markets for its own farm and industrial products was probably the dominant French motive in the negotiation of this trade agreement. Coal remains the principal import from Germany, although it may lose this position if French production creates the expected surplus of coal within the next year or two. Other imports anticipated under the agreement include electrical equipment, chemicals, farm and mill machinery, and fabrics, almost all of which could be expected to compete increasingly with French products. In February and March 1950, however, a small drop in the rate of German exports to France may well indicate that greater German competition has not thus far developed.

Under the agreement, the French are permitted to attempt to double their 1949 rate of exports to Germany, and in the first two months have already boosted the 1949 rate by more than 25%. The largest export item is to be wheat, of which more than 100,000 tons may be shipped prior to 30 June provided the French reduce their price approximately to International Wheat Agreement levels. Other goods to be sold to Germany will include machine tools, light trucks, tires, phosphates, and fabricated iron and steel, all of which will compete with German products. The German motive for accepting a doubled volume of these imports from France probably lay in the expectation that the German competitive position in the French market would be better than that of the French position in the German market.

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The Franco-German trade agreement promotes greater trade liberalization in Europe by lifting quota restrictions on about 60% of the total volume of trade involved. On the other hand, there is a "safeguard" provision that restrictions can be reimposed, should domestic producers be "compromised". Also, the agreement endorses contacts between agricultural and industrial groups of the two countries, ostensibly for the purpose of overcoming trade obstacles but also affording an opportunity to promote restrictive cartel arrangements. Finally, the agreement does not touch upon tariffs, which the French are likely to use in lieu of quota restrictions against excessive German competition with important French products.

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France may be expected to interpose considerable difficulties in the way of current US attempts for effective action by ERP countries to control East-West trade. Official French sources have recently alleged that to stop present shipments of 1-B items would cut France's trade with eastern Europe by 25% and would work an economic hardship on the country. (1-B items are those which the US concedes can be exported in limited quantities to the East without great security risks.) Furthermore, they claim that France must remain free to offer these items in order to obtain goods which France requires from eastern Europe.

Should the imposition of 1-B controls cut this trade 25%, as the French claim, actually less than 1% of all French exports would be affected. As this percentage would not materially affect the French balance of payments position, it is difficult to believe that such a loss would work an economic hardship on France. The second argument is more credible, but it is almost impossible to determine the extent to which eastern European countries will hold out for 1-B goods in exchange for their exports.

Recently, ECA has been concerned over French intentions to send 2,000 tons of lead (on the 1-B list) to the USSR, inasmuch as ECA has financed over \$6½ million worth of lead imported into France and has assisted in the rehabilitation of French North African lead mines. The French state that their stockpile of lead is far in excess of what they would ordinarily keep, but that they could not have foreseen that this would be the case when they requested ECA to finance imports of lead. Now they contend that no other purchasers can be found for the surplus, and that the asbestos they would receive in return is of greater strategic value to the West.

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The French are likely to stand by these arguments with considerable determination, and will probably also show interest in a prospective Italian proposal that the West even consider exporting I-A items (vital to security) to eastern Europe, providing it can obtain in return goods of a higher strategic value.

B

The French will exert strong pressure at the Foreign Ministers' meeting to obtain a firm commitment from the US to share the burden of military operations in Indochina. The French argument is that the loss of Indochina to Communism would gravely imperil US and UK interests in all of southeast Asia, and that France cannot meet obligations for western European defense imposed by the US under the Atlantic Pact while the bulk of the army and the major share of military expenditures are allocated to the Indochina operations. There is increasing criticism in French political circles of what are regarded as US demands that the French Army fight for the freedom of the Indochinese, thereby undermining the French Union. These demands are seen in US efforts to induce the French to go beyond the 8 March Accords and issue at this time an "evolutionary" statement promising complete independence to the Indochinese.

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THE NETHERLANDS

B The Dutch Cabinet's recent decision that western New Guinea should remain under Dutch authority may seriously endanger Dutch-Indonesian cooperation. The Dutch attitude, set forth in a note from the Netherlands Ambassador in Washington to the State Department, was precipitated by the increasing Australian interest in preventing the Indonesian Republic from acquiring control of New Guinea. Negotiations are currently in progress between the Netherlands and Indonesia on the future status of New Guinea, and the Dutch already feel that the Indonesians are not moving toward a solution satisfactory to The Hague. The negotiations will no doubt be complicated when the Indonesians learn of the firm Dutch attitude as expressed to the US.

ITALY

B The postponement to date of most of this year's local elections in Italy suggests apprehension on the part of the De Gasperi Government that its popular strength may have declined, and that the electorate might swing to the extremist parties. Evidence of such a loss at the polls would weaken the Government's prestige and might adversely affect its domestic program and its foreign policy of close collaboration with the West. The other political parties, too, for tactical purposes have not opposed postponement of the elections.

A spring series and a fall series of municipal elections, as well as the remaining regional elections, had been scheduled for 1950. The Chamber of Deputies, however, passed legislation on 26 April which would extend the term in office of the present municipal councils beyond this year's expiration date. Legislative measures necessary to provide for the regional elections, long overdue although expressly guaranteed by the Constitution, have not been taken by Parliament. The unwillingness of Premier De Gasperi's majority Christian Democrats to hold the elections at this time could be explained by: (1) party concern lest the slow progress achieved in carrying out socio-economic reform might be reflected in a loss at the polls, particularly in depressed areas of central and south Italy, and (2) the party's current efforts to achieve greater cohesiveness and unity of action among its various groups, as illustrated by the recent return of the Dossetti reformist left wing to active participation

in party affairs. The Christian Democrats probably fear that an extreme leftist victory at the local and regional elections in Tuscany and Emilia would increase the capabilities of the Communists for cutting off north Italy from the rest of the peninsula when it suited their purpose.

The apparent absence of opposition on the part of the other political parties to the postponement of the elections is probably due to their hopes of making a better showing at a later date. Saragat's Socialist Workers Party (PSLI) is currently faced with the problem of unification with the Unitary Socialist Party (PSU). Should the two parties merge during this year, the potentialities of democratic Socialism for attracting various Italians who are reluctant to cast their votes for either the Christian Democrats or the Communists should be substantially improved. The Liberals are engaged in maneuvers with other rightist groups, such as the Monarchists, attempting to take advantage of a wave of reaction against the present administration. The Communists, too, are seeking to increase their party and labor following. Although their labor strength has declined since the 1948 elections, the economic situation works increasingly in their favor, causing them to feel that a postponement of the elections would improve their chances at the polls.

All the opposition parties apparently believe that time is working against the Government. This estimate is reasonable, as the outlook is poor for amelioration of the basic economic ills, particularly unemployment, and for a successful resolution of the nationalist issue of Trieste. The failure of the Government in these matters would stimulate a political swing to the extremist parties, an eventuality very unfavorable to US interests.

SPECIAL ARTICLE

CONSEQUENCES OF THE POSSIBLE DEPARTURE OF
DE GASPERI FROM THE ITALIAN GOVERNMENT

A Premier De Gasperi's recent statement that he is continuing in office despite poor health raises the question of the effect of his departure upon the Italian Government. A summary answer is that his absence would accelerate an already observable evolution toward government exclusively by the Premier's Christian Democratic Party and, secondarily, toward government less responsive to popular control. The other parties within the Government are even now being dominated by the more forceful and more numerous Christian Democrats (CDs), partly through Cabinet reorganization and partly because of dissension within their own ranks.

De Gasperi's genius for compromise and conciliation, which holds the Christian Democratic Party together, has so far kept the Republicans and moderate Socialists in the Government, despite their growing resentment and despite Christian Democratic pressure for their removal. The departure of Premier De Gasperi would probably impel the minor parties to leave the Government.

Many CD leaders have urged a one-party government on the strength of the CD's large plurality in the last elections. Much of the 1948 vote for the CDs, however, was made up of ballots against Communism rather than for the Christian Democrats in any positive sense. De Gasperi has been anxious to maintain a Cabinet which could be termed representative of the democratic non-Communist forces. With De Gasperi gone, the proponents of one-party government would probably assume command.

The nature of an all-CD Government would depend in a large part upon which section of the party gained control, or whether the several party groups were merged into a party coalition. The CD is composed of heterogeneous elements which fall largely into two main groups. One of these embraces the centrists and rightists, including large property holders, industrialists, many members of the clergy and other conservatives. The other, the "left wing", has the support of Catholics interested in social reform, particularly members of Catholic labor unions and the Church's organization of laymen, Catholic Action (sparked by its dynamic Vice President, Luigi Gedda). De Gasperi has been adept at keeping the left-wingers in the Party, although they resent their lack of representation in the Government and await an opportunity to take the moderate Left position in the Cabinet, now held by the Republicans and Socialists.

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Because the conservatives hold about two-thirds of the party's strength and are now in power, one of their number can be expected to succeed De Gasperi. This wing wishes to maintain the status quo and would be as slow as politically feasible in implementing the promised socio-economic reforms. Their fear of inflation would inhibit them from vigorously encouraging a strong investment program in the sectors necessary to the rehabilitation of the Italian economy. Outstanding among the likely conservative successors to De Gasperi are Piccioni and Taviani, Party leaders who do not hold Cabinet posts, Gonella, Party Secretary and Minister of Education, and Campilli, Minister without Portfolio in charge of investments and employment. Interior Minister Scelba, director of the Italian security forces, might be another candidate, but he is unpopular even within his own Party for the authoritarian conduct of his police. None of these men, however, nor any other conservative candidate, could receive the undivided support of his wing under present circumstances and, consequently, any of them might seek the backing of the Party reformists. An indication that such backing could become essential is the recent election of four of the "left wingers" as members of the 12-man Christian Democratic Directorate, from which they had been excluded since June 1949.

Popular dissatisfaction with economic conditions, reflected in parliamentary opposition, press attacks, strikes and demonstrations, would eventually challenge a predominantly conservative Government. Were this challenge sufficiently powerful, the "left wing" Christian Democrats might assume the leadership. Led by Giuseppe Dossetti, professor of ecclesiastical law, they are militantly religious, and their complete dedication to Roman Catholicism gives them influence even among opponents of their socio-economic program. The Dossetti "left wing" aims at bettering the depressed social and economic situation of the Italian people. It urges an Italian economic structure resembling that of a corporate state, and could expect support from financial interests whose desire for the formation of large industrial trusts would not be inconsistent with a system of economic control along the vertical lines followed by the Fascist corporate system. Such a system, because it encourages cartels, would be in conflict with US policy. Another clash with US goals for Western Europe might come about through Dossetti's formula of "total power for the Christian Democrats", which suggests an undemocratic political philosophy. Furthermore, a Dossetti Government might seek a union of Catholic nations rather than cooperate with the Council of Europe as it is now constituted.

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The establishment of any all-CD regime, despite its basically anti-USSR orientation, might jeopardize the political stability sought in Italy by the US. Such a Government, representing the interests of a limited section of the population, would invite increasing attacks from all opposition parties, and might be unable to maintain political and economic stability. An all-CD regime could fall easily into the authoritarian position into which the Communists now are attempting to push the present Government. As the result of either inaction on the part of the conservatives or the establishment by the reformists of an unpopular system reminiscent of corporativism, a CD Government would arouse widespread public discontent and would offer the Communists a fertile field for exploitation. Skillful agitation of a growing public dissatisfaction would greatly augment the Communists' popular support and would increase the possibility of their eventual domination of the Italian political scene.

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