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Included in this issue is the following Special Article:

"New Economic Problems in France and their Effect on Some ECA Policies"

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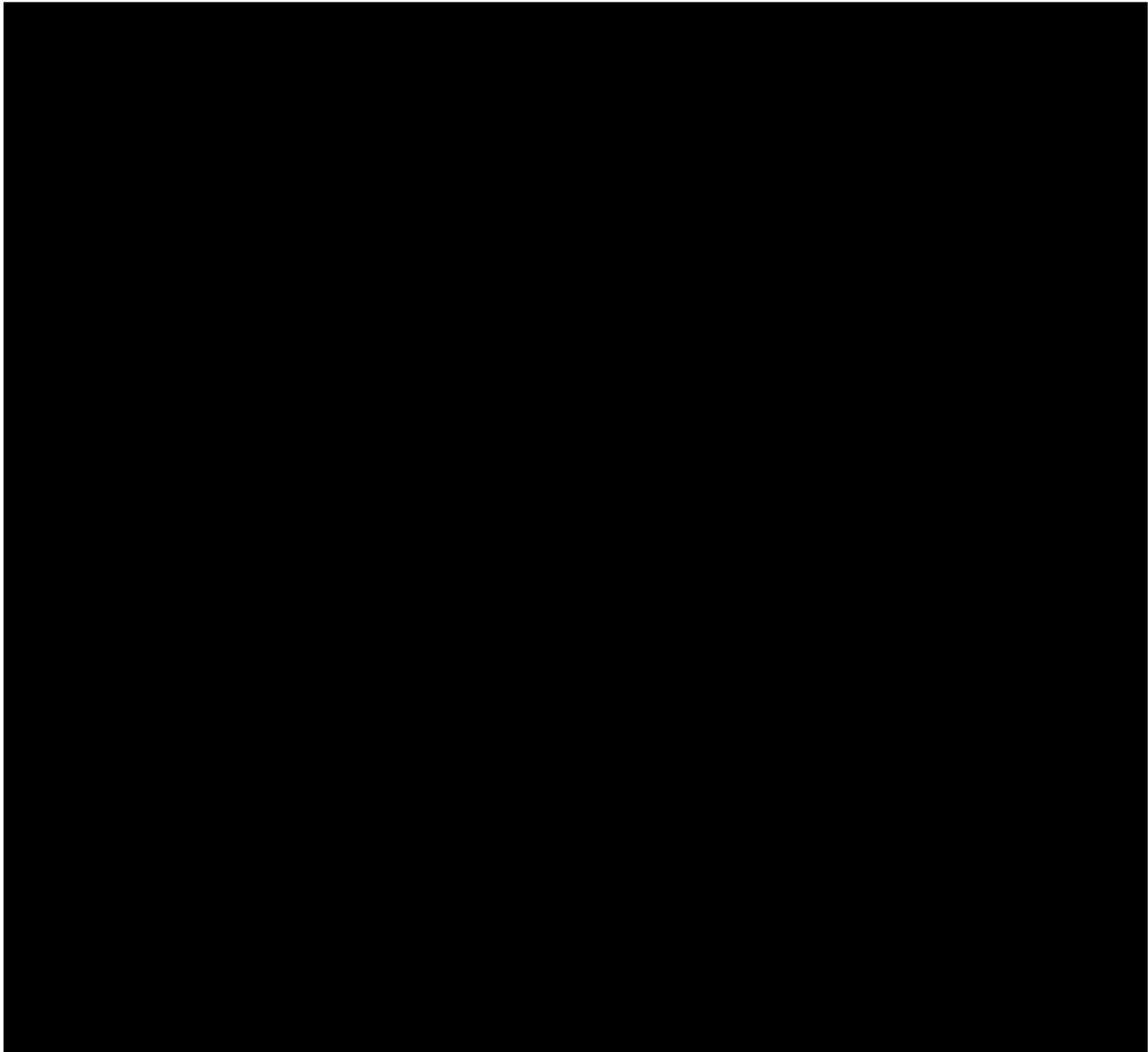
WESTERN EUROPE DIVISION

WEEKLY SUMMARY

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AUSTRIA

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The 1950-52 ECA investment program for Austria is not likely to achieve the complete viability of the Austrian economy by the end of 1952. It will, nevertheless, have contributed substantially to Austrian economic rehabilitation (provided the occupation status quo is maintained), and to the maintenance of Austria's governmental stability and pro-Western political orientation. The program does not appear to fulfill entirely the collateral objectives of directing the long-term economic orientation of Austria toward western Europe, facilitating western European trade liberalization, and achieving maximum utilization of the limited investment funds available.

In general, there appears to be an overemphasis on public works, such as railroads, public buildings, roads, and bridges, and underinvestment in agriculture, forestry, electric power and non-ferrous metals, sectors where investment would contribute the most to long-term Austrian viability. Furthermore, too much stress is being placed on types of industrial production that indicate that the Austrians believe, probably unrealistically, that Eastern markets will exchange Austrian industrial products for food. Although some improvements have been made in correcting this investment program imbalance, further progress is desirable. Additional investment in agriculture, for instance, represents the best possibility of reducing Austria's dollar imports by 1952. The proper development of Austria's timber resources, as well, would go far toward expanding Austrian exports. This will require unpleasant political decisions. The reduction of some 6,000 saw milling establishments into a few economic units will be resisted by the politically important farmers. Austria's hydroelectric resources also have great potential value for foreign exchange earnings, and greater stress will probably be put on them. Maximum development, however, of this resource depends ultimately on investment aid outside the ECA program. Lastly, greater attention must be directed to tourism, which promises to be Austria's largest single earner of foreign exchange.

The obstacles which have prevented a fully effective investment program are several. First, political temporizing on the part of the Austrians has resulted in the scattering of investments over too wide an area of the economy. Second, the flight of domestic capital (largely to Switzerland) from profitable enterprises, and even from some nationalized industries, has further reduced the low level of domestic capital formation, and

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will probably hamper the achievement of the self-financing targets of the program. Third, and most important, the problems engendered by Soviet occupation, causing the loss of revenue and production, a poor investment climate, and additional expense to the Austrians, makes it improbable that even with a fully effective ECA investment program a balance of payments would be achieved by the 1952 target date. Soviet sensitivity to "discrimination" in the eastern zone has led to a disproportionate amount of investment in immovable public works in that zone. This investment will make a relatively slight and indirect contribution to overall Austrian economic viability but would, at least, limit Soviet acquisitions in the event of future seizures of assets.

FRANCE

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The new and vigorous program under consideration by ECA for increasing France's dollar exports could bring a substantial reduction in that country's dollar trade deficit. During the first four months of 1950 some improvement in dollar trade was noticeable over 1949; dollar exports covered 19% of dollar imports for the period January-April, against 13½% for 1949. But this obviously is far from alleviating the dollar gap problem, and is a result more of reducing imports than of increasing exports, which is the real crux of the problem. The present policy of exhorting the French to greater efforts, of creating committees, and of publicizing the problem has been seriously inadequate.

The ECA Mission, therefore, proposes a whole new approach centered around direct, personal appeals to Foreign Minister Schuman and Finance Minister Petsche who would be asked to press for determined action by the French, in place of a paper program. The action envisages: (1) a comprehensive study of the dollar gap problem as it applies to France alone; (2) the activation of the Franc-Dollar Committee, or its replacement; (3) the assignment of actual export targets for individual firms; (4) the establishment of credits and guaranties on marketing risks for exporters; and (5) the refunding of social welfare charges to exporters to the dollar area.

The concrete incentives for the exporter are of especial value, and would have far more immediate effect upon the attitude of French exporters (which has been one of the greatest stumbling blocks to increasing exports) than any number of poster campaigns on the benefits to France of exporting to the dollar area. Publicity would continue to be prominent in the program, but

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would be directed toward convincing the individual exporter that sales to the dollar area are as profitable to him personally as sales in other markets. The French Government would have to play its part in removing psychological, as well as physical, barriers to trade; it has tended in the past to take the view that difficulties beyond French remedial action were responsible for the inadequacy of dollar exports.

A direct approach to Petsche and, especially, to Schuman would probably go further toward achieving major progress than would any other method. Both of these men have the influence and the drive necessary to push forward the Mission's program.

B The Socialist Party is unexpectedly making life difficult for the French Government coalition by its efforts to secure passage of a bill reclassifying Civil Service salaries. This move comes in spite of the fact that the Socialist Party decided at its recent National Congress to continue its policy of not participating in the Bidault Government, but of supporting it in the National Assembly.

It has seemed recently that the Socialists were disinclined to upset the Bidault Government because they felt that they could more effectively appeal to workers by remaining outside the Government. Their present efforts in the National Assembly are, however, causing trouble for the Bidault regime. The Socialist-sponsored bill for the upward classification of Civil Service salaries is firmly opposed by the Government, especially in view of the present severe strain on the Treasury. Premier Bidault has already been authorized by the Cabinet to call for a vote of confidence in the Assembly on this issue.

The Socialists are especially desirous of securing passage of the bill as they consider the civil servants to be a vital element of their following. Nevertheless, although the Socialists will not be easily mollified, they are likely to compromise. In general, the Socialist move is an indication both of revived dissension, among the political parties supporting the present coalition, after a relative political calm, and of the unexpected difficulties with which Bidault can be faced in attempting to maintain his shaky minority Government in power.

BELGIUM

A The one-party Social Christian (Catholic) Government of Premier Duvieusart probably will receive parliamentary approval by a small majority when the new Belgian Parliament

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convenes on 20 June and is likely to obtain the repeal of the law of 1945, which makes King Leopold ineligible to reign. With a small Catholic Party majority in each house of Parliament, the new Government probably will be successful in returning King Leopold to the Belgian throne, although there is a strong possibility that a compromise agreement may be reached, with the tacit approval of the Liberal and Socialist Parties, for Leopold's eventual abdication in favor of his eldest son, Prince Baudouin.

The present composition of the Belgian Cabinet represents somewhat of a balance between the Flemish and Walloon areas, the ardent and lukewarm pro-Leopoldists, and the Catholic Party's conservative and liberal ideas on economic and social policy. Both van Zeeland and Carton de Wiart are included in the Government, and, despite the fact that they are ardent pro-Leopoldists, their past efforts to reach a compromise agreement on Leopold's status indicate that before the King is returned unconditionally, consideration will be given to the danger of such a course to the national unity, the monarchical institution itself, the Catholic Party's future political position, and the probable economic instability occasioned by widespread Socialist disorders and strikes. In the event that economic and social issues are brought up in Parliament before the 1945 law is considered, the Government may be able to meet parliamentary opposition because the more liberal elements in the Catholic Party hold important labor and economic posts.

B The results of the 4 June elections in Belgium indicate that (1) there will be no easy solution to the royal question, despite the parliamentary majority of the pro-Leopold Christian Social (Catholic) Party; (2) the emphasis given the Fleming-Walloon division of Belgium will become more and more a political issue; and (3) the Communist Party is thoroughly discredited as a representative Belgian political party.

The Catholic Party gained a majority of 2 in the 212-seat Chamber of Deputies, and a majority of 2 among the 106 directly-elected Senators, a majority that probably will be maintained when the 69 indirectly-elected members of the Senate are chosen. The elections give the political parties the following representation in the Chamber of Deputies and in the Senate, each party's loss or gain being indicated in parentheses: Catholic Party--108 (up 3), 54 (no change); Socialist Party--77 (up 11), 37 (up 4); Liberal Party--20 (down 9), 12 (down 2); and Communist Party--7 (down 5), 3 (down 2).

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The Catholic Party increased its popular vote from 43.5% to 47.7%, and the Socialist Party from 29.7% to 34.5%. The Liberal Party, however, lost 3.9% of the popular vote to bring it down to 11.3%, and the Communist Party lost 2.8%, reducing its popular vote to 4.7%.

The majority, slim as it is, of the Catholic Party makes it possible for the Catholics to return Leopold to the throne unconditionally, but the consequences in the way of bitter national controversy and Socialist active and passive resistance would, in the long run, prove extremely embarrassing to the Catholic Party.

The two major parties have become more than ever representatives of narrow regional interests, a factor which will inject Fleming-Walloon differences into political disputes between the Catholics and Socialists. Although the Catholic Party made substantial gains in the Flemish area, it lost 2 seats in the Walloon area. The Socialists more than recouped their 1949 election losses, becoming strongly entrenched in the Walloon region. Except for the votes obtained at the expense of the Communists, the gains of the Socialists, made possible in part through the joint Socialist-Liberal lists, probably represent a Walloon protest against threatened Flemish domination of the country more than acceptance of Socialist doctrine.

ITALY

A The Italian Communists are meeting with some success in seeking to enlist the support of non-Communist groups and individuals for their "peace" campaign. Their efforts may win a receptive audience among moderate segments of the population and become a threat to MDAP objectives in Italy.

The main emphasis of the Italian Communist Party's central committee at its April meeting was on a positive appeal to the widest possible sector of the population by means of the peace campaign. To carry out this policy, the Party decided to undertake an all-out drive to extend alliances with other mass groups. The Party has organized several politico-cultural conventions in honor of the resistance and of the persecuted anti-Fascists; moreover, for these conventions it succeeded in obtaining the blessing of President Einaudi and the names of various distinguished individuals of unquestioned integrity as sponsors. Representatives of the moderate leftist parties were present at these conventions.

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A recent Communist-promoted rally of the Italian Partisans of Peace, at which ex-Premier Orlando presided, was attended by ex-Premier Nitti and numerous other non-Communist members of Parliament, ranging from moderate Left to extreme Right. Particularly disturbing aspects of this meeting include: (1) the fact that many of those present, including Orlando and Nitti, are proponents of Italian neutrality in an East-West contest; (2) the passage of a motion similar to that of the Communist-sponsored Stockholm convention in favor of outlawing the atomic bomb; and (3) the almost total absence of protest in the non-Communist press over the presence of prominent Italian statesmen at a meeting whose purpose was subordinated to Communist objectives.

If the Italian Communists are able to portray their peace campaign in such a way as to beguile Italy's "elder statesmen" and members of Parliament and to appeal to neutrality interests, they may have even greater success in attracting the support of a large part of the population, many of whom would be swayed by the opinions of the elder statesmen. Such widespread adherence to neutrality and a pronounced deterioration of the Italian "will to resist" could in time seriously weaken effective participation by Italy in the MDAP.

THE VATICAN

B The Papal excommunication decree, by its first anniversary, does not seem to have convinced those Roman Catholics who are Communists that their politics are incompatible with their religious beliefs. The decree has not apparently reduced the ranks of Communism, nor has it caused extreme leftists to leave the Church. It may have strengthened the Church's following among the middle classes (already largely anti-Communist). Many workers, however, continue to find no conflict between Roman Catholicism and the economic promises of Communism--beyond which they do not explore. In Eastern and Western Europe, the areas where both Communism and Catholicism are most extensive, the decree has served mainly to provide an official record of the Vatican position. In Eastern Europe, where Jesuit elements in the Vatican hoped that resistance would be stiffened, the local hierarchies have shown themselves ready to yield to intensified pressure from the Communist governments, thus increasingly

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isolating themselves from the Vatican. Furthermore, the potentiality of "Catholic" Communist groups as a Soviet weapon is a subject of increasing concern to the Vatican. Communist exploitation of national issues gives the Catholic-Communist movement popular appeal.

Vatican leaders, according to reports, are disappointed with the results of the decree in France and Italy, where there are no indications that it has been effective. The reduction in the past year in the number of Communists in France is believed to be directly a result of the growing unpopularity of Soviet Communism, the beneficial effects of ECA, and the purge of unreliable elements by the Communists themselves, rather than of the Papal decree. In Italy, the fact that the Vatican-sponsored Christian Democrats are postponing the local elections originally scheduled for this year suggests that they fear an increase of Communist strength. One Italian priest has explained his reluctance to apply the excommunication decree with the observations that if he did, "no one would be baptized, married, or buried anymore." The difficulty of excommunicating Catholic Communists in Italy is illustrated by the presentation of the Passion Play at Easter in a Communist town, with Communist participation. The incident is another example of the inability of many Italians to recognize any antagonism between their religious beliefs and political doctrines which are an expression of their economic aspirations.

SPAIN

B Last week's Spanish Cabinet crisis, which nearly led to the removal of Suances as Minister of Industry and Commerce, has passed over leaving no change in policy impending. On the contrary, in an important speech Franco has committed himself to the program for industrialization under Government controls directed by Suances. In spite of stormy opposition to Suances by other ministers at a previous Cabinet session, Franco's speech was followed by a Cabinet decision to proceed with plans for a 600,000-ton steel mill to be built in Asturias by the state industrial investment corporation, the Institute of National Industry (INI). This project has been strongly opposed by the large private Spanish steel interests which argued that it was an uneconomic plan and that they were competent, given adequate foreign exchange, to expand Spanish steel production. These assertions appear to be well-founded and are the more impressive because of the priority need for agricultural rather than industrial expansion.

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The new project is doubtless designed partly to further the private ambitions of individuals connected with INI. It also has, however, the purpose of breaking the monopoly of a few wealthy families over Spanish heavy industry. This accords with the basic objects of the "National-Syndicalist revolution" as conceived by the Falange ideologists. Having previously lost and renounced the support of Monarchist collaborationist elements, it seems that Franco is now refusing to appease the financial and business oligarchy. He thus further narrows his base of support to the bureaucracy and the Army, both of which have profited financially through the regime's economic policies, and to those Falangists who favor a genuine political and economic revolution of fascist character for Spain. Out of fear of greater loss, however, in case of a change of regime, the oligarchy is unlikely to muster any strong initiative against him. In addition to these domestic conditions, Franco's resistance to a policy change is influenced by his extreme resentment of foreign criticism, particularly from the US and the UK.

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SPECIAL ARTICLE

NEW ECONOMIC PROBLEMS IN FRANCE AND THEIR EFFECT ON SOME ECA
POLICIES

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New economic problems have developed in France during the past year which tend to make more difficult the Government's cooperation with some specific ECA policies. A loss of working harmony between ECA and the French Government could be expected to impede progress toward general US aims in western Europe.

The new problems are found in the replacement of the postwar shortage of goods by a surplus of many commodities, in the consequent halt in the expansion of production, and in the development of a mild deflation replacing the former persistent inflation. The industrial production index, which by May 1949 had reached a postwar peak of 131 (1938 equals 100), can be expected for the current fiscal year to attain an average of only about 120. This will mean that only half as much progress as expected by the French will have been made in fiscal 1950. Meanwhile, profit margins have been squeezed, and bankruptcies have been occurring at a rate about 80% higher than in 1948.

The considerably altered economic situation has had its effect on the main elements of the population, causing them to pursue objectives that clash with some ECA policies. Labor is now fearful of unemployment, and is therefore suspicious of projects for more efficient production. Labor's qualms also encourage management to refuse substantial wage boosts, which would alleviate the serious social tensions.

Agricultural producers are hesitant to expand their crops, as desired by ECA, until stable foreign markets or adequate subsidies are assured.

It is in the case of the industrial producers that the Government has had to make most of its concessions in conflict with ECA policies. These producers, who have become afraid of their position, are eager to protect present markets and develop new ones, and have pressed the Government for measures in line with these goals. The Government has responded with some tolerance of cartelization, and with an acceleration of its program for restoring prewar tariffs. It has agreed to a limited relaxation of credit controls, in the face of demands for liberalization. ECA policy is against a broad expansion of credit which might release latent inflationary pressures. The industrialists have been demanding substantial tax reductions, which ECA feels would jeopardize the Government's budgetary position. A cut in revenues would probably cause the Government

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to raise prices on the products of the deficit-ridden nationalized industries, and would possibly induce the Government to finance public works through loans rather than current revenues. It could also move the Government to curtail military expenditures. So far, the Government has yielded only to the extent of abandoning some of its projected tax raises.

Despite these concessions to domestic pressure groups, the French Government appears to be in sympathy with the broad US objectives, which it has been steadily promoting. Though winking at cartels, it has been quietly preparing the country for its first anti-trust legislation. While temporarily sacrificing adequate tax revenues, it has pushed ahead with a comprehensive tax reform. And, although the Government has restored some tariffs, it has been removing quota restrictions on trade, and has been working toward a resumption of multi-lateral payments. Finally, it has produced the Schuman plan, with which it hopes to overcome the self-interest of pressure groups by tempting them with a vision of peace, by appealing to their pride in French continental leadership, or by presenting them with an international fait accompli. French economic policies appear to be sincerely intended to harmonize with long-term US aims; they may well fortify the economic base of the French state and build French-German friendship.

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