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WESTERN EUROPE DIVISION

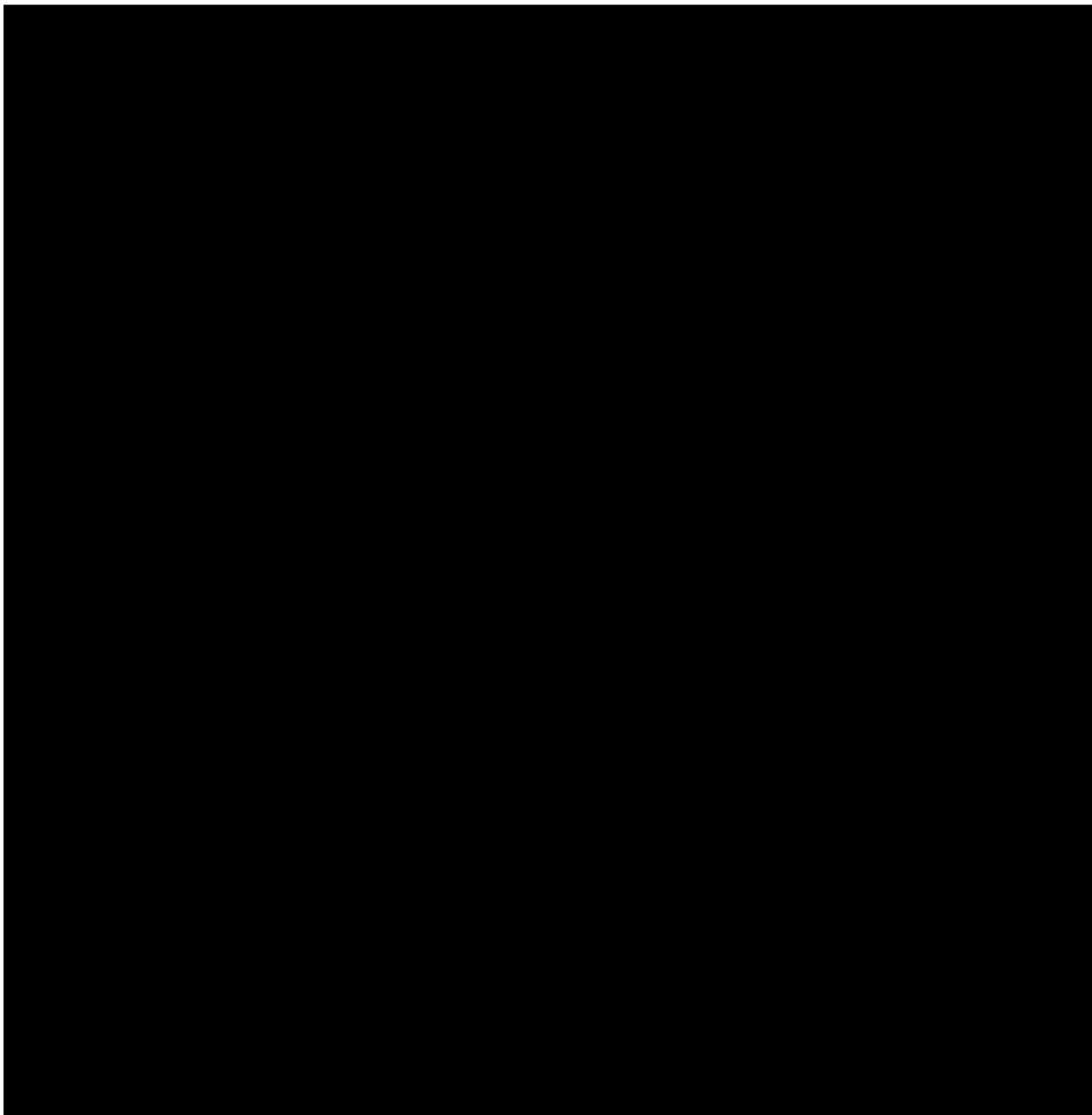
WEEKLY SUMMARY

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For week ending  
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Economic measures in the German Democratic Republic (GDR), designed to convince the population of the efficiency of the Communist-managed economy, probably will be launched before the October elections. The program may be initiated by reducing prices in the state-operated (HO) stores, at the same time ending the rationing of all commodities except meats and fats. The importance of HO stores would be augmented by the appointment of commissions charged with the responsibility of insuring that these stores obtain the highest quality merchandise, leaving only the poorest quality goods to move in private channels.

The end of rationing would probably create a scarcity of goods, thus necessitating further economic steps. GDR farmers would be required to increase their production, and credits granted under terms of the Polish-GDR trade agreement would be used to import commodities from Poland.

Another possible way, after the election, of dealing with the problem of short supply is to reduce the circulation of money through a currency conversion. This action would also aim at reducing the disparity in the rate of exchange between the east mark and west mark, a disparity that has caused some embarrassment to the GDR authorities.

If a currency conversion is not undertaken, derationing might be made practicable by raising the prices of selected items, and increasing taxes.

Berliners involved in private trade with the GDR would inevitably suffer losses in their holdings of east marks through currency conversion, but the establishment of a parity between the east and west marks would reduce the difficulties encountered in trading, unless the GDR raised new barriers.

#### AUSTRIA

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The Austrian Communists have failed again to distinguish themselves, and, indeed, have only emphasized their weakness before the eyes of the Soviet occupation forces. The Communist-sponsored Peace Congress, held in Vienna on 10-11 June, not only failed to attract the vaunted thousands, but also neglected to produce the celebrities who had been billed in advance. According to the Austrian police, the mass meeting for the Congress included about 15,000--not an impressive figure, especially in comparison with a People's Party rally four days earlier

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which mustered 35,000 to protest the peace movement. Italy's Nenni, France's Joliot-Curie, and England's Dean Johnson pleaded last minute sickness, and stayed away. The familiar Austrian figures were joined only by the Czech Minister of Health to give the meeting its international tone.

In their campaign for signatures for the peace declaration, the Austrian Communists also appear to be having their usual difficulties. After weeks of effort, the Communist press on 31 May proclaimed that signatures had been obtained from 250,000 Austrians (only 40,000 more than the Communist vote last October). Ten days later, the Communists claimed over 400,000 signatures, or about half their goal. Such a figure is probably as much as they will obtain, and it, too, is not startling when the theme of the campaign, the energy of the collectors, and the presence of the Soviet army are considered.

Actually, the Communists have been outmaneuvered and outorganized. The Austrians, who seldom have an opportunity to get their teeth into anything they can shake without unduly provoking the USSR, felt no restraint in the case of hypocritical activity of an indigenous political party. The Government, the non-Communist political parties, and the Catholic Church conducted a vigorous campaign against the two-faced "peace" movement, and almost gleefully exposed and deflated it. Meetings against "peace meetings" were conducted, and the full force of the anti-Communist press ridiculed the movement. Chancellor Figl effectively asked why abolition of only the atom bomb was being demanded. Why not total disarmament and total demobilization? State Secretary Graf shrewdly pointed out that peace for Austria does not require thousands of signatures, but only one--that of Mr. Zarubin (the Soviet treaty negotiator).

If the peace campaign was to be a Soviet test of the efficiency of the Austrian Communist Party, the Party failed to impress even the Austrians.

## FRANCE

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Recent balloting by French workers indicates that the Communists have lost strength among labor in France, but that they will have the support of a strong plurality of the workers when there is no forceful leader of the opposition to exhort apathetic non-Communists to action. The Communist-led General Confederation of Labor (CCT) has the organization necessary to ensure that all of its members, and many unorganized workers, will follow its lead when the need arises.

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This CGT capability was evidenced by the recent social security elections in which 5½ million workers voted for members of the administrative councils, which will handle the distribution of social security funds for the next five years. Whereas the CGT garnered 51% of the ballot in similar elections in 1946, in the recent elections 45% of the votes went to the CGT; next in rank were the Christian Labor Federation (CFTC) and the Socialist-Force Ouvriere (FO), each with less than half of the CGT's total.

Behind this seeming victory for the CGT, however, is the fact that nearly 2½ million workers failed to vote. It is certain that a large majority of these workers would under no circumstances support the CGT. A good FO and CFTC campaign favored with dynamic leadership could probably have captured a large share of the untapped electoral strength.

This hypothesis is borne out by another recent election for the important consultative plant committees of the large (13,000 workers) Michelin Company at Clermont-Ferrand. A traditional Communist stronghold, this plant now finds most of its labor unorganized. A single vigorous FO leader was more successful than six full-time CGT officials in campaigning among these unorganized workers. The results were: FO, 5 permanent and 5 substitute seats; CGT, 2 and 2; and CFTC, 1 and 1.

Should true non-Communist leaders emerge, it is probable that they would be able to win the support of almost as many workers as the CGT commands, for the bulk of French labor today is unorganized.

## THE NETHERLANDS

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The Netherlands Government probably will continue to press its claims for sovereignty over New Guinea after the termination of the present interim administration period at the end of 1950, despite a minority opinion within the Government that New Guinea must be sacrificed to Indonesia to strengthen the Netherlands-Indonesian Union. After the granting of Indonesian independence there was considerable pessimism in and out of the Government because it was felt that a decision on New Guinea unfavorable to the Netherlands would be reached. This pessimism seems now to be replaced by dogged determination to retain the area, an attitude that may to a large extent be due to Australian opposition to Indonesian control of the Dutch half of New Guinea, and to numerous statements by Indonesian leaders demanding the area for the Indonesian Republic.

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A further indication of the Dutch attitude is contained in the budget for the Ministry of Union Affairs and the Overseas Realm, which places special emphasis on the long-range economic development of New Guinea. The reiteration of the opposing demands of the Netherlands and Indonesia before serious discussions on New Guinea have been held will make a bilateral settlement more difficult and hamper cooperation on other problems. Although the New Guinea issue probably will be taken up at the second Union Conference, which is scheduled for August, it is doubtful that much progress toward a settlement will be made at that time.

Recent parliamentary criticism of the Government's "do nothing" Indonesian policy, which necessitated a vote of confidence, revealed a more united opposition from the minor rightist parties, two of which are in the Government, and indicated the strong stand against any concessions on New Guinea that may be expected. The stability of the Government is not likely to be threatened by this question, however, before late 1950 and then only if the concessions to Indonesia virtually eliminate Dutch sovereignty over the area.

## ITALY

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With the approach of the third year of ECA aid, the Italian economic outlook, within major limitations, is better than at any time during the past ten months. A more optimistic outlook in business circles regarding Italian economic prospects is supplanting the pessimism which prevailed last winter and the early spring of this year. Factors contributing to this improved outlook include: (1) the index for industrial production in March was 118 (1938 equals 100), the highest monthly level since the end of the war. This March index was observed particularly closely to see if the end of hydroelectric power rationing would cause production to snap back from a previous slump; (2) the downward movement of wholesale prices in Italy has stopped after a decrease of about 20% in 1949; (3) demand for goods is tending to rise, and manufacturers' inventories, which in many sectors, had risen well above the norm are dropping; (4) during the first part of 1950, orders to the steel industry have risen; at the same time the production of one of the largest steel users, the automotive industry, continues its upward climb. (Motorcar production in March was 153

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(1938 equals 100), while truck production was 271); (5) bankruptcies, which reached record highs between November 1949 and January 1950, have since decreased substantially; and (6) harvest forecasts for 1950 are good in many important crops. Wheat forecasts in particular are for a crop five to seven percent larger than the excellent one of 1949.

Among negative aspects of the economy, however, are the continued fall of prices on the Italian stock market, and the lower level of Italian foreign trade in 1950. Though some slight improvement is probable in foreign trade during the remainder of the year, the first half of 1950 will probably show a considerable decline in total foreign trade compared to the same period in 1949.

Finally, any trend toward improvement must be viewed within the limitations of Italy's unemployment and investment situations. Unemployment remains the critical index of basic Italian economic recovery and stability. Although registered unemployment has shown a slightly more-than-seasonal decline recently, it still remains close to the two million mark, with all the social and economic problems this entails. Further, it remains to be seen whether the Italian Government has the willingness and the ability to form and implement the aggressive investment program necessary to alleviate unemployment. Such an investment program is essential if the gains made under ECA are to be held after 1952.

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Prospects appear improved for a resumption of Italo-Ethiopian negotiations looking toward a compromise agreement on the former Italian colony of Eritrea. Such an agreement would not only aid in insuring internal security in Eritrea but would also promote US interests by facilitating a rapprochement between Italy and Ethiopia, which would redound to the political stability of the strategic east African region.

Italy has recently indicated that it is prepared to modify its previous demands for the independence of Eritrea, and is willing to resume negotiations looking toward Eritrean federation with Ethiopia. The Italians have firmly opposed Ethiopia's desire to annex Eritrea, on the grounds that the Ethiopian Government is incapable of preserving order and protecting Italian nationals in the area. Italy also regards a collective, Italian, or Ethiopian trusteeship for its former colony as unfeasible. Continued

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British administration of Eritrea would probably be satisfactory to the Italians, but the UK is eager to shed its responsibilities in this area, and it is unlikely that the UN would approve an extension of the British administration.

The only solution the Italians now believe to be generally acceptable is that of a federation of Eritrea with Ethiopia, allowing a certain measure of Eritrean local autonomy. Should Ethiopia be willing to make concessions, a bilateral agreement might be reached paving the way for a settlement at the next meeting of the UN General Assembly. If Italy and Ethiopia cannot come to agreement, the UN might press for a UN trusteeship, or it might postpone action, in which case Italo-Ethiopian relations would be further embittered and Eritrea itself would suffer.

#### SPAIN

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The Falange and other supporters of the Spanish regime have organized an impressive demonstration for Generalissimo Franco in the northern industrial city of Bilbao, apparently with the aim of convincing critics at home and abroad that they have mastered the situation in this important Basque resistance center. Franco visited the city on 19 June, inaugurating a short series of summer "personal appearances" which may be designed to sample opinion in various parts of the country as a prelude to the long-expected Cabinet shake-up. Bilbao has been given a festive atmosphere, and, although there has not been a mass turnout, substantial crowds have assembled to cheer the Chief of State.

This holiday mood covers a situation of fundamental unrest. The tenacious Basque resistance has come under special attacks from the Spanish Government during the past year, some of them coinciding with the visits to the US, Rome, and Latin America of the Basque President-in-Exile, Jose Antonio de Aguirre, spokesman of the opposition to Franco. Important Basque leaders were arrested and were given long prison sentences. Subsequently, the Falange Civil Governor of Guipuzcoa vigorously renewed the attempts to suppress the use of the Basque language. This action recently resulted in the refusal by a Catholic Action Youth group to carry out a large religious meeting at San Sebastian, and an extraordinary criticism of the civil government in the Catholic Action weekly magazine, Ecclesia.

As a culminating blow to Basque solidarity, the Spanish Government has obtained the division of the Catholic



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diocese of Vitoria, which formerly embraced the entire Basque area, into three dioceses. Despite Basque protests to the Vatican, the new Bishops were appointed without deference to the historic custom which requires that the clergy be natives of the region, able therefore to understand the Basque language and preach in it. The new Bishop of Bilbao, Dr. Morcillo, has been elevated to this post from that of Auxiliary Bishop of Madrid, where he was born and where he has been conspicuously identified with the clergy most closely supporting the Franco regime. All of the new Bishops took the required oath of loyalty to the Chief of State, and were entertained by Franco after their investiture.

The new ecclesiastical appointments show Franco's will and ability to use the Spanish Church to promote the ends of his regime. These tactics have given rise to a considerable increase of cynicism among the Spaniards, alienating many from the Church. Despite their deep Catholicism, the Basques will be no exception to this trend.

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