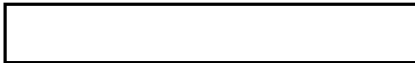


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14 February 1966

AUSTRIA

Political

With three weeks to go before the parliamentary elections of 6 March, all political activity in Austria is centered on the election campaign. The election is not expected to terminate the coalition between the People's Party (middle class, conservative) and the Socialists which has governed the country since 1945, but it will influence the form of the coalition.

The emotional climate of the campaign is provided by the ever fresh Austrian memory of its 3-day civil war of 1934. The People's Party recalls the radical Marxism of the Socialists while the Socialists remember that the civil war killed Socialist non-combatants and ended in a right-wing dictatorship followed by German annexation. Memory of old animosities supports popular feeling that maintenance of the big-power coalition is an important guarantee against inter-party violence.

The fall of the coalition government last October came about essentially because People's Party Chancellor Klaus and Socialist Vice Chancellor Pitterman were too weak to control personal rivalries between the parties. As an immediate cause, budget cuts imposed by the finance minister (of the People's

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Party) last fall particularly annoyed the Socialist ministers. The cuts reminded the Socialists of the power of the finance minister to upset carefully worked out coalition compromises.

The principal campaign issue now is how to provide effective leadership. The coalition is being criticized--with each party absolving itself of blame--for failure to deal with such problems as a continuing housing shortage and with a spectacular \$100,000,000 deficit in the national railroads. Each party is also emphasizing its ability to curb price increases and to counteract a recent slight decrease in Austria's rapid rate of economic growth.

Most observers believe that the People's Party and the Socialists will each poll better than 40 percent of the total vote as they have in every election since World War II (see chart attached). As for Austria's two minor parties, some right-wing Liberals are expected to vote for the People's Party on 6 March; and the Communist Party, for the first time since 1945, has ordered its members to support the Socialists in almost all districts.

After the election, the two major parties are expected to cooperate in forming a new government, although the 20-year-old coalition seems likely to be looser in form. A principal proposed change would give to the legislature some of the powers of initiative and decision, which are now monopolized by the cabinet.

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Economic

The rate of economic growth dropped off somewhat in Austria in 1965 largely because adverse weather conditions cut down agricultural production. The country's total output for 1965 appears to have been some 3.5-4 percent above that for 1964. This rate is considerably under the 6 percent increase shown for the previous year and somewhat below the average of recent years. Production is expected to rise by 4 percent in 1966. Per capita gross national product, now about \$1,165, has risen particularly rapidly in recent years because of slow population growth.

Sharp increases in prices and wages--aggravated primarily by supply problems--are causing some concern. Retail prices, for example, rose about 5 percent during 1965 while wage increases of 13 percent were realized in the first six months of the year alone.

Austrian foreign payments are in near balance. A trade deficit is expected to diminish in 1966 as imports slacken while exports should continue to boom. Larger net receipts from tourism are also expected.

Defense Policy

National defense problems represent an aspect of Austrian government policy which shows increasing importance in recent years. Since 1955, when Austria regained control over its

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national security, a small armed force has been reestablished, recruited from a cadre of regular troops augmented by short-term conscripts. The armed forces are subordinate to a Ministry of Defense which has consistently been headed by a People's Party official. This is particularly important because of the absence in Austria of a chief of staff of the armed forces. The Socialist Party, which has tended to be anti-militaristic and to press for a reduction of the 9-month conscription period, maintains a "State Secretary" within the ministry whose job is to watch out for Socialist party interests.

Most of the equipment for the Austrian Army has been supplied by the United States as grant aid through the Military Assistance Program, which was formally initiated in FY 1957 and terminated in FY 1960. The USSR supplied small quantities of mortars, guns, tanks, and aircraft. In addition, Austria purchased small arms, light anti-aircraft artillery, fire control equipment, tanks, and signal equipment from several Western European countries. Since 1962, most equipment except tactical aircraft has been purchased from the United States. Requirements for aircraft in recent years have been filled mostly from Sweden, France, and Italy.

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Defense expenditures for the period 1961-64 increased at an average annual rate of over 28 percent. Although the defense budget is published with a functional breakdown of proposed expenditures, it is difficult to determine precise delineation of military and civilian pay, funds for the air force, procurement and maintenance costs, and other outlays. It is estimated that allocation of annual expenditures by function during the past several years has averaged as follows: military and civil pay, 30 percent; operations (with some procurement and maintenance included), 42 percent; and purchase of major items of equipment and construction, 28 percent. Actual defense expenditures for 1961-64 and 1965 budget estimates appear below:

Annual Defense Expenditures, 1961-65
(in US Dollars)

	<u>1961</u>	<u>1962</u>	<u>1963</u>
Defense Expenditures	71,615,390	79,230,770	99,923,080
Defense as percent of national expenditures	3.7	3.8	4.4
Defense as percent of GNP	1.2	1.1	1.3
	<u>1964</u>	<u>1965</u>	
	133,000,000	113,692,310*	
	5.2	4.2	
	1.6	1.3	

* Estimated

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The primary mission of the armed forces is to help maintain the neutrality to which Austria is pledged under the 1955 treaty which ended the Occupation. The strength of the Austrian armed forces is considerably less than that of the defense forces of fellow neutrals Sweden and Switzerland. The Defense Ministry believes that possession of defensive missiles, in conjunction with the development of an early warning and ground control intercept system, are vital to Austria's ability to deter violations of its neutrality. The ministry has held exploratory talks within the government and with the signatories of the State Treaty--the United States, United Kingdom, France and the USSR--on the subject of the eventual acquisition of such missiles. The three Western powers have agreed to reinterpret the 1955 State Treaty, which prohibits Austria from possessing, constructing or experimenting with special weapons, including missiles, to permit defensive missiles acquisition. The USSR has thus far remained opposed. The Austrians apparently have been encouraged by Soviet agreement in 1963 to a reinterpretation of treaty commitments with Finland. The reinterpretation now allows that country to acquire defensive missiles. There has been also some speculation that Austria may be asked by the USSR to purchase bloc military equipment as the price for Soviet permission to introduce defensive missiles into the Austrian armed forces.

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FINLAND

Political

The Finnish political situation is currently in a period of feverish activity as all parties prepare for the quadrennial general elections on 20-21 March. The outcome is expected to confirm the continuing trend toward the strongly pro-Western Social Democratic Party (SPD), which is expected to be restored to its former position of influence on the domestic scene.

For the past 7-8 years the SPD has been effectively isolated from active participation in the country's political life by President Kekkonen and his Center (Agrarian) Party, on grounds that the Social Democrats do not support Finland's official policy of neutrality and friendly relations with the Soviet Union. Kekkonen, however, appears to have been motivated more by concern for the waning fortunes of his Center Party and a desire to weaken the Socialists than by any genuine concern about basic disagreement over foreign policy.

Despite this handicap and the steady Soviet attacks on the SPD leadership, the party registered a decisive victory in municipal elections a year ago, and political observers expect the March elections to result in a major shift toward the Socialists despite the behind-the-scenes maneuverings of Kekkonen and the Soviets. There is a good chance that the

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SPD will emerge from the elections as the single largest party in the 200-member parliament. In any case, President Kekkonen's dominance of the local political scene will not be significantly affected, primarily because of the real power and influence the head of state wields under the Finnish constitution.

Economic

While Kekkonen and his Center Party have sought to foster an undercurrent of concern about foreign policy in the pre-election skirmishing, relations between Finland and the USSR have remained on a relatively even keel in recent years. Trade relations, which are probably the most reliable indicator of the state of relations between the two countries, are extensive and continue to expand year by year. In 1965 total trade between the two countries reached \$440 million, making Finland one of the Soviet Union's major trading partners in the free world. Despite the slow but steady increase in trade with the USSR, Finnish exchanges with the Free World have expanded even more rapidly and continue to account for more than 75-80% of Finland's foreign trade. Finnish exports to the USSR comprise for the most part ships (ice-breakers, cable-laying vessels as well as merchant ships), industrial machinery, and a growing volume of consumer goods such as furniture, textiles and food-stuffs. The Soviets, for their part, provide petroleum products, coal, breadgrains, semi-finished metal products and vehicles.

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At Soviet insistence, this trade is conducted on the basis of bilateral balancing--essentially a barter arrangement with no settling of imbalances in gold or convertible currencies. Finland has traditionally exported more to the USSR than it has imported, but the imbalance has reached as high as the equivalent of \$40-50 million in recent years. The Russians, faced with a shortage of foreign exchange themselves, have refused to settle in gold or convertible currencies and have insisted that their purchases of Finnish goods will be determined by the amount of Soviet products Finnish businessmen are willing to import.

Defense

While running a favorable balance in its trade with the Soviet Union, Finland has in the postwar years almost invariably had an imbalance of imports over exports in its exchanges with the Free World, reaching some \$200 million last year. Long aware of this continuing problem--and the desirability of working down its export surplus in trade with the USSR--the Finnish government has sought to encourage business and government components to purchase from Soviet sources. As a result, the Finnish defense forces have on occasion purchased limited quantities of spare parts and ammunition which have been applied against the trade imbalance.

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In addition to these relatively minor purchases, however, the Finns have negotiated Soviet credits earmarked for the specific purpose of acquiring military equipment. Such arms-purchase agreements were negotiated in 1959, 1962 and 1964. The earlier agreement covered armor, artillery prime movers, miscellaneous equipment and spare parts for items previously purchased. The purchases were financed out of a 1959 Soviet credit of \$125 million. In its purchases from the USSR since late 1963 Finland has acquired such equipment for its air force as MIG-21 fighters, jet trainers and helicopters. Large quantities of weapons, vehicles and radar have also been purchased from France, the United Kingdom, Switzerland and Sweden.

In early 1963 Finland secured the permission of the signatories of the 1948 Peace Treaty (mainly the UK, France, and the USSR) to modify provisions of the treaty and thus enable it to acquire defensive missiles. Both the UK and the USSR acceded to a reinterpretation of the treaty, but the Finns apparently were given to understand that they should "balance" any purchases of missile-related equipment between East and West. Since that time, the Finns have purchased some 350 surface-to-surface Vigilant anti-tank missiles from Britain, and some 200 SS-11 anti-tank missiles from France. They sounded out the Soviets on the purchase of a battery or two of SAMs, but no final decision apparently has been made

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by the Finns who may be concerned about their obsolescence and the reported reluctance of the Soviets to release more modern and classified equipment.

Finnish defense officials are apparently still shopping around for jet fighter aircraft, helicopters, and radar and missile equipment, but the biggest handicap to procurement in the West remains budgetary considerations and the currently aggravated balance of payments problem.

Finnish Military Expenditures

	<u>Amount</u>	<u>% of budget</u>	<u>% of GNP</u>
1964	\$115,000,000	5.5	1.7
1965	126,000,000	8.8	1.8

Vote Distribution in Austrian National Council Elections

Party	1945	1949	1953	1956	1959	1962
Austrian People's Party	1,602,227 (49.8)	1,846,581 (44.1)	1,781,777 (42.3)	1,999,986 (46.0)	1,988,043 (44.8)	2,024,501 (45.4)
Austrian Socialist Party	1,434,898 (44.6)	1,623,524 (38.7)	1,818,517 (42.1)	1,873,295 (43.0)	1,953,935 (44.8)	1,960,685 (44.0)
Austrian Liberal Party*	na	489,273 (11.7)	472,866 (11.0)	283,749 (6.5)	336,110 (7.7)	313,895 (7.1)
Austrian Communist Party**	174,257 (5.4)	213,066 (5.0)	228,159 (5.3)	192,438 (4.4)	142,578 (3.3)	135,520 (3.0)
Other	na	21,289 (0.5)	17,369 (0.3)	2,440 (0.1)	2,190 insig	21,530 (0.5)

NOTE: Percentages of total valid vote in each election appear in parentheses below the valid vote obtained by each party.

* Vote shown for 1949 and 1953 is that obtained by the League of Independents, the precursor of the Austrian Liberal Party.

** Candidates running with the support of Communist-front parties and dissident Socialist groups