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Top Secret Summary
For the Secretary
May 26, 1947

DEPARTMENT OF STATE

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ITALIAN AND FRENCH STRUGGLE AGAINST COMMUNISM

Conditions in France and Italy have now reached a point where the struggle between Communist and non-Communist forces appears to have entered a decisive stage. In France Socialist Premier Ramadier is courageously attempting the experiment of governing with the Communists in opposition. In Italy Premier de Gasperi's coalition cabinet last week resigned in the face of a desperate financial crisis, declining public confidence in the government and unremitting Communist attacks on the moderate parties. The anti-Communist forces in Italy are apprehensive over following the "Ramadier experiment" since they are still fearful of the Communists and the degree of disorder which the Communists might foment if excluded from government participation. De Gasperi's Christian Democrats, however, have apparently decided that they can no longer afford to shoulder the major responsibility for Italy's critical conditions, with the Communists remaining in the government and sabotaging the efforts of the Christian Democrats to improve conditions. Charged by the Communists with having placed undue reliance on western support while antagonizing the USSR, and accused by almost everybody of having failed to solve Italy's urgent problems, the Christian Democrats have steadily lost ground while the Communists have prospered mightily. In resigning de Gasperi appears to hope for a broader coalition, which will spread responsibility and reduce the number of portfolios in the hands of the Communists, or else for a government excluding the Communists.

Factors in Italian Crisis. The immediate issue which produced the fall of the de Gasperi government was the financial crisis marked by a budget deficit of over 600 billion lire and by general loss of confidence in the future of the lira. Campilli, Italy's able Minister of the Treasury, has admitted that all the measures which he had adopted to restore confidence in the lira had failed and he has expressed the opinion that the only remedy which now exists is the importation of consumer goods on a vast scale. Beneath the financial crisis, however, lies a fundamental lack of confidence in the government, based on several factors in Italian political life since the end of the war. The governments since Liberation have been hampered by the sharply competing philosophies of the parties composing them. The earliest governments had only token authority during military operations. Since the transfer of full responsibility to the Italians, elections, the institutional question, and especially the peace treaty have monopolized the attention of the government and politicians. Party strife and ambitions have resulted in unworkable ministerial organization, and incompetence and inexperience have resulted from the inevitable epuration of many individuals trained in government who were Fascists and from paying off

obligations

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obligations to members of the resistance with political positions. The largest factor, however, is the fact that the Communists have used their participation in the government to infiltrate every state administrative organization and to sabotage every effort toward the effective solution of Italy's problems.

Communist Successes. An indication of the advance of the Communists in Italy is that their reported membership increased from 1,708,000 to 2,166,000 in 1946. With their Socialist allies they have gained control of the municipal governments in Genoa, Turin, Milan, Florence, Bologna. Last month they won a plurality in the provincial elections in Sicily, the most conservative region of Italy, obtaining 24% of the vote as compared with 7.9% in June, 1946. They confidently expect to consolidate their grip on the labor movement, having elected 70% of the delegates to the Convention of the Labor Federation being held next month. The measure of their success is reflected by a greater display of confidence, a growing intransigence on important issues, more open use of intimidation and increasing threats of resort to violence if necessary to gain their ends.

"The Ramadier Experiment." In France, where Premier Ramadier has taken a firm stand against the Communists, the situation appears somewhat more favorable than in Italy. The party composition of the present government appears to be, under existing political conditions, the best that could be hoped for. It excludes both the Communists on the extreme left and reactionary elements on the right, and it combines the fundamentally democratic forces of the center and left which still command the support of the French Parliament and people despite a general public feeling of disillusionment with government fumbling and incoherence. Furthermore, its component elements are oriented toward us through a mutual belief in liberty and human decency and through deep fear and distrust of ruthless Soviet imperialism. Finally, there is the extremely important fact that the government is essentially Socialist and is headed by a Socialist. It therefore has the support of substantial elements of the vital trade union movement and if it succeeds, it will unquestionably gain increased working class support.

Communists Move Cautiously. Since the formation of the Ramadier Government the Communists have been acting with great circumspection, and they are not expected in the near future to resort to extreme action such as a general strike. Such a move would force the Socialists further away from them, would lay them open to charges of crippling French economic recovery solely for their own political ends, and might well throw real support to de Gaulle. While they are trying to intimidate the government by threatening a general strike, this threat appears less "frightening" than it was a year ago. Some observers who were convinced a year ago that the Communists were in a position to paralyze the national economy by stopping all essential industries and transport now seriously question whether the Communists would be able to

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carry out an effective general strike for more than several days at the most. However, beneath the surface, the Communists are doing everything possible to torpedo the Ramadier government. Through their domination of labor they appear to be using tactics of limited sabotage of production. There have been a series of individual "spontaneous" strikes, which have no sooner been settled than others cropped up elsewhere to take their place. The Communists have also cleverly stepped up the tempo of their propaganda against the government policy of a strictly controlled economy, thereby capitalizing on the widespread resentment among all classes in France against fumbling, red-tape and the plethora of government controls and regulations.

Critical Economic Problems - It is in our very real interest for the Ramadier government to succeed. To do so it will need continued courage as well as shrewdness and luck, and it may at some point need outside support. It must maintain its cohesion despite internal differences on economic policies and continued Communist sniping. Ramadier is faced with critical economic problems which must be held to manageable proportions if the economic and political situation is not seriously to deteriorate. The hardship in the conditions of life of the average worker and salaried employee inevitably causes discontent and makes them vulnerable to exploitation by the Communists. Lack of coal and low labor productivity both tend to retard expansion of industrial and agricultural production, which is imperative. An ever present threat of an uncontrolled inflationary spiral, which is very likely to occur unless the wage level is held and production increased, hangs over the government. Among the most acute problems is the food shortage, which had led to a reduction in the bread ration and a natural deterioration in morale. Ramadier is fighting hard to avoid a further reduction.

Consequences of Failure. The consequences of a failure of the Ramadier Government on both the French internal and the international situation would be extremely grave. There is a serious division in the Socialist party on the question of participating in, let alone leading, a government without the Communists. If Ramadier's Government fails, the strong left-wing opposition to the policy of the present leadership will be greatly reinforced, and it is almost certain that in such an event the Socialist left-wing would take over direction of the party. In addition, the fall of the Ramadier Government would almost inevitably weaken the newly forged ties which at the moment link the forces of the center and left in the present government. But the major disaster attending collapse of the government would be the division of France into two hostile extremist camps -- the Communists on the one side and de Gaulle on the other -- with an inevitable struggle to the finish between them.

SETTLEMENT OF SOVIET NATIONALS IN EASTERN EUROPEAN AREAS

One Kremlin method of ensuring continued control over Eastern Europe
apparently

apparently involves extensive colonization by Soviet citizens of certain politically strategic areas. A substantial number of Soviet families are being settled in eastern Germany and Austria, along the Black Sea Coast of Rumania, and in Bulgaria.

In Germany an estimated 300,000 Soviet nationals are being dispersed through the Polish-administered territories of Pomerania and Silesia. In Austria the settlers generally have occupied the farms along the Austro-Hungarian border; in Rumania and Bulgaria settlement has taken place principally in the coastal areas. Soviet nationals now constitute approximately half of Constanza's population of 100,000; in Bulgaria they now reportedly number 65,000 and may eventually total 200,000.

Especially significant is the geographic pattern which the colonization is following. In Germany and Austria the effect has been the establishment of an ideologically and ethnically solid population-barrier against the West. The settlements in Austria, moreover, form a Slavic corridor connecting the Slavic peoples of Czechoslovakia and Yugoslavia and separating the non-Slavic inhabitants of Austria and Hungary. In Rumania and Bulgaria, a bridge of Soviet nationals is being built in the direction of the Turkish straits, serving at the same time to cut off the natives of those countries from access to the Black Sea.

In addition to their more or less passive function of serving the Kremlin as ethnic barriers and bridges in vital areas, these settlers are in a position actively to promote Soviet purposes: (1) by joining with local communists in the formation of pro-Soviet underground organizations -- such organizations are already in existence in Austria and Rumania and are being armed and equipped by Soviet occupation commanders; (2) by forming political pressure groups which would seek to persuade local governments to follow pro-Soviet policies or would demand "plebiscites" either on "independence" or on incorporation of their areas into the USSR; (3) by creating "incidents" which would serve as pretexts for armed Soviet intervention in the "protection" of Soviet nationals.

PROSPECTS FOR DUTCH USE OF FORCE IN NEI

The rapid deterioration of Dutch-Indonesian Republic relations in the Netherlands East Indies and the widening area of disagreement which has developed in the two months since the signing of the Linggadjati Agreement have greatly increased the possibility that the Dutch will soon use force to break the deadlock in negotiations. Although Dutch military operations against the Republic might be successful in their initial phases, hostilities would degenerate into bitter, protracted guerrilla warfare, which would eliminate the possibility of achieving a peaceful solution for many years. This state of affairs would give further encouragement to the growth of anti-Western sentiment throughout the Far East and might result in the dispute being brought before the Security Council of the UN.

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The present situation arises basically from the divergence of Dutch and Indonesian views on the degree of autonomy which the Republic will enjoy during the interim period before the establishment of the United States of Indonesia. The Dutch hold that Netherlands sovereignty shall apply over all the Indies in the interim period, while the Republic rejects Dutch sovereignty as inapplicable to itself in view of Dutch recognition in the Linggadjati Agreement of the de facto authority of the Republic in Java, Madura, and Sumatra.

US Policy in Southeast Asia. Recognizing the importance of developments in Southeast Asia to the security and to the economic and political interests of the United States, we have within the past fortnight instructed our Embassies in Paris and The Hague to express to the French and the Dutch our concern with the dangers which appear to us inherent in the situations developing in Indochina and the Netherlands East Indies respectively. We have maintained that the whole future relationship between the western democracies and the emergent nations of the Far East -- and in consequence, the character of these nations -- may be determined by the present attitude of the metropolitan powers toward the nationalist movements within their colonial possessions. In particular, we have stressed that developments in one country have immediate repercussions throughout the area. We have stated unequivocally that we recognize the danger that the nationalist movements may take a Pan-Asiatic direction or result in the establishment of totalitarian regimes. We have expressed the opinion that the interests of the western democracies and of the peoples of the area can best be served by close association, on a voluntary basis, between the peoples concerned and the western power which has traditionally been responsible for their welfare and with whose customs, laws, and languages they are familiar.

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Weekly Review of State Department
Weekly Summary of Central Intelligence Group
Current Economic Developments of State Department
State Department Telegrams

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For the Secretary
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COMMUNIST THREAT IN ITALY

Italian Communist leader Togliatti this week gave public warning that his party may abandon democratic methods for the conquest of power and resort to violence in its efforts to overthrow Premier de Gasperi's moderate government. In a meeting of partisans at Modena, Togliatti admitted that the Communists had 30,000 well-armed partisans at their disposal and threatened that if the government did not give "prompt proof of its democratic spirit" the Communists would "have to fight". The Italian Communists have hitherto been following tactics of "moderation", apparently confident that they will rise to power through legal methods. The imminent withdrawal of Allied troops from Italy has increased the possibility of direct Communist action to seize power and has rendered more effective other Communist methods for taking control of the country. Despite Togliatti's "call to arms", other Communist tactics appear more likely under present conditions. It may well be that Togliatti's statement was designed primarily to intimidate the government. In carrying out their offensive, the Italian Communists have open to them two main courses of action: 1) sudden overthrow of the De Gasperi Government by Communist-sponsored armed force, following withdrawal of Allied troops; and 2) Communist-inspired general strikes to paralyze the important north Italian industrial area, and thus seriously interfere with future implementation of the program for European recovery.

Indications of Possible Direct Action - By the employment of tactics similar to those used in Greece, the first course is within the realm of possibility. Although the Italian Army and Carabinieri have some 200,000 troops to oppose Communist guerrilla estimated to number as many as 50,000, the addition of partially-armed and trained Italian and Yugoslav Communists and fellow-travelers could appreciably increase the strength of the revolutionists. Furthermore, redeployment of Italian armed forces to protect the Yugoslav frontier following the withdrawal of Allied forces would remove certain troop units from important Communist-dominated centers in north Italy. Recent developments within the Communist Party in Italy may increase the likelihood of direct military action. There has long been a division within the party between

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the Togliatti faction, which has favored peaceful political infiltration, and the pro-revolutionary group headed by Luigi Longo, a member of the International Brigade during the Spanish civil war and partisan leader in Italy during World War II. The recent departure of eight members of the "direct action" group for Moscow may indicate closer coordination between this element and the USSR and consequent intensification of Communist para-military activity. Togliatti's last speech may mean that he will go along with the revolutionary faction.

Indications of More Moderate Line - Two factors militate against Communist revolution in Italy. The USSR is unwilling to support directly such a step because it might involve war with the US. An even more potent reason against it is that the failure of the European recovery program, or even failure of the US to provide Italy with emergency wheat and dollars during this critical interim period, might deliver Italy into the hands of the Communists by popular vote at the next national elections. It would therefore seem more logical for the Italian Communists to await the outcome of the elections, scheduled for April 1948, before using revolutionary tactics. The continuation of threats and intimidation is a permanent policy, and any Communist statements regarding the necessity for violence can be considered to be made partly for propaganda purposes. It will be remembered that Togliatti made a speech threatening "direct action" prior to the Sicilian elections in April, and it is certain that the leftist majority in that former stronghold of conservatism was created in part by the Sicilians' terror of Communist reprisals.

Strikes Cause Economic Deterioration - Of the two courses of action, the second seems most likely. There is evidence that it has already been embarked upon. Paralysis of the north Italian industrial section, which is perhaps second only to the Ruhr in its importance to the European economy, through "spontaneous" general strikes could defeat the operation of the European recovery program and eventually throw not only Italy into the Soviet orbit, but possibly France as well. The strike of 600,000 agricultural workers in the Po Valley, which began on September 9 indicates that the Communists are now making every effort to bring production to a standstill. Communist-sponsored strikes are causing a further deterioration of the critical economic situation, which has already compelled the Premier to appeal for emergency wheat from the US in order

to restore Italy's essential pasta ration. The De Gasperi Government must cope in some way with the desperate economic crisis before the September 23 meeting of the Constituent Assembly, when a vote of no confidence proposed by Left Wing Socialist Nenni will be discussed. Whichever course the Communists follow, their chances of success are excellent unless the De Gasperi Government can ameliorate the economic crisis by procuring sufficient wheat or through successful operation of the European economic recovery program.

US View on Broadening of Government - Representatives of smaller Italian parties have recently given indications that they would favor a broadening of the Italian Government and reinclusion of the Communists, apparently believing that the Communists would genuinely cooperate in the government and failing to realize that the real issue in Italy today is between democracy and totalitarianism and not mere rivalry between individual political parties. We have informed Ambassador Dunn that we would welcome participation in the Italian Government of the greatest possible number of the moderate left, center and right groups prepared to work together for the best interests of the Italian people. Such representation in the government would give it the greater strength and stability that it needs at this critical time. We will not support extremists and we cannot support those who, while not themselves of the extreme left or right, make common cause with extremists. Bringing the Communists back so soon after forming a government without them would certainly add to their prestige in Italy and abroad, and they would exploit it as evidence of the inability of any Italian cabinet to govern without them. Recent international events such as the Soviet attitude on European reconstruction have tended to weaken the influence of the Communists--a trend which would only be reversed by bringing them back into the government. In our opinion collaboration between the real democratic forces in Italy and the Communists is impossible since their ultimate aims are entirely divergent.

ANOTHER CRISIS IN FRANCE

The French Government of Premier Ramadier has survived another crisis, receiving a vote of confidence from the Assembly by the narrow margin of 292 to 243, but there seems little doubt that its prestige has seriously declined. The latest vote of confidence came over the government's program of coal subsidies as a means of preventing a rise in industrial prices. None of the parties, including

Ramadier's own Socialist party, was satisfied with the government's program. Ramadier survived merely because leaders of the non-Communist parties did not want to overthrow him before the municipal elections scheduled for October, fearing that Ramadier's fall would play into the hands of the Communists on one side and of de Gaulle on the other.

Split Within Socialist Party - During the crisis Ramadier was threatened with a serious rift within his own party as a result of demands from the left wing of the party that he follow the economic directives of the recent Socialist Congress and introduce legislation for greater "direction" of the economy. The left-wing Socialist group attempted to persuade the directing committee of the party to call a special congress to "discipline" Ramadier and his Socialist Ministers for insubordination in failing to follow party directives. These efforts were unsuccessful, however, and the directing committee simply announced its desire that the economic policy of the government continue to "evolve" along the lines of the resolutions of the party congress, stating that a special congress would be held after the municipal elections. The overt struggle in the French Socialist Party concerns control over: 1) current economic and colonial policies, 2) the ideological orientation of the party, and 3) the party's mission in continental Europe. This struggle has divided the Socialists into two nearly equal factions. On the right of the cleavage are Leon Blum, Premier Ramadier, most of the Socialist ministers and parliamentarians, and about 40% of the party's local executives. The left wing, led by Guy Mollet, the party's secretary general, has the support of 49% of the local executives and a majority on the Socialist Executive Committee. Policy clashes between the factions have occurred over Socialist concessions to the MRP on Indochina and Algeria and to the Radicals and the MRP on price controls. Ramadier defends these actions as realistic compromises necessitated by the Socialist minority position in both the cabinet and the legislative body. Mollet's group insists on greater concessions to native nationalisms and on a planned domestic economy favoring the working class--or, failing the latter, withdrawal from the government. The practical motivation of the left-wing stand is a desire to capitalize on worker discontent with Communist leadership in order to register Socialist gains in the October municipal elections.

Disillusionment Over Present System - Qualified observers believe that the Ramadier Government will probably be able to hang on until after the municipal elections

but that it is not likely to last much longer than that as it is now constituted. While most of the French people admit that Ramadier has tried to meet the problems which his government has faced, the conviction is growing that he has neither sufficient authority to dominate his own party, let alone a coalition government, nor sufficient forcefulness or prestige to galvanize the people to make the sacrifices on which the country's very survival may depend. There is an increasing belief that France cannot be governed effectively under the present system with its division of political forces and the limitations of the constitution. More and more Frenchmen are agreeing with de Gaulle that a strong government with greater authority is imperative. A return to power by de Gaulle is now considered to be a definite possibility since Frenchmen who are disillusioned over the present governmental system see only two alternatives--de Gaulle or Communism--and most Frenchmen would infinitely prefer an unknown adventure with de Gaulle to a Stalinist police state. The Communists, however, still the strongest party in France, can be expected to use all the resources at their disposal to keep de Gaulle out.

Reaction to de Gaulle - French popular reaction to De Gaulle's recent charge that the US is giving preference to plans for German recovery over plans for France has increased his chances of returning to power and may endanger US objectives in Europe. Although most Frenchmen are pro-US and fundamentally anti-Communist, they are apparently beginning to fear that US policy threatens French security by proposing to re-build a strong Germany at the expense of France's prosperity and hence of France's safety. Because only the Communists had emphasized this view prior to DeGaulle's speech of September 7, his new tack will further weaken Communist appeal, while strengthening his own, and draw to him popular support now flowing away from the Ramadier Government. If DeGaulle accedes to power and the economic situation continues to deteriorate, he is capable of leading the French into a nationalistic adventure (opposed to both Soviet and US policy) which would make the implementation of the European recovery program virtually impossible.

COMMUNIST INTENTIONS IN WESTERN GERMANY

The Communists in the bizonal area of western Germany are accelerating their penetration of German labor organizations. The success of this penetration will enable the Communist Party in that part of Germany if it should later

be suppressed as a political organization, as its leaders apparently anticipate, to continue its activities as an underground movement through the workers. At present the Communists are attempting to infiltrate the unions while preserving simultaneously the appearance of non-Communist control by permitting Social Democrats to remain in prominent offices temporarily. The current Communist strategy is to win over the individual worker and thus assume command of the union through control of the rank and file. Marxist sentiment is particularly strong in the Rhenish-Westphalian industrial region and especially powerful in the Ruhr. In addition, a reliable American trade unionist reports extensive expansion of Communist influence in Greater Hesse. The overall plan is to gain sufficient strength to be in a position to shut off or seriously curtail bizonal production.

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Current Economic Developments of State Department
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~~Top Secret Summary~~
For the Secretary
November 24, 1947

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COMMUNIST VIOLENCE IN ITALY AND FRANCE

The Communist campaign against European recovery took more violent form in both Italy and France during the past ten days as strikes and disorders spread over the two countries. While this Communist-inspired violence probably represents the beginning of a militant effort to create a "revolutionary situation" rather than the beginning of an immediate revolutionary coup, there have been several indications that the Italian Communists have begun a major effort to overthrow the moderate government of Premier de Gasperi, by violent methods if necessary. The evidence pointing toward this includes: 1) widespread Communist-inspired riots during the past 10 days; 2) a report that Communist military activity, preceded by increasing demonstrations, is imminent in Italy; 3) a report from Soviet satellite diplomatic sources of a decision by the Kremlin that the main efforts of the "Cominform" will be directed against Italy; 4) a threat by left wing Socialist leader Nenni, who is a close collaborator with the Communists, that unless de Gasperi is replaced by an independent there will be continued disturbances with no assurances as to the consequences; and 5) the recent use of delaying tactics by the Soviet representative on the four power naval commission for distribution of the Italian fleet.

Disorders Sweep Both Countries - During the past week a number of coal miners in northern France, employees of several French automobile factories and flour millers in several French cities went on strike. The port of Marseille was tied up by a strike of water-front, transport and industrial workers. Riots lead by tough Communist shock troops broke out in Marseille. Communist-inspired disorders swept over northern Italy, later spreading to the south, as the Communists complained violently of the activities of alleged "neo-fascists" and belabored the government for permitting the continued existence of such groups. Offices of the right wing Uomo Qualunque and other rightist groups in several cities were wrecked. These tactics appear to be a natural outgrowth of the more militant approach heralded by the "Cominform" announcement last month, representing another phase in the Communist efforts to undermine economic stability, foment popular unrest and create difficulties for the moderate governments in these two key western

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European countries. They may well be designed also to test the Communists' own militant machinery and the resistance to such tactics in order to prepare the ground for an all-out effort to seize power. It is reported that at this stage the main concentration of the Kremlin is toward Italy rather than France, based on the belief that the internal situation in France is "not yet ripe" whereas in Italy it is viewed as very favorable.

Communist Moves in Italy - The Italian Communists are evidently determined at all costs to get rid of Premier de Gasperi, around whom anti-Communist sentiment is polarizing and who represents the major obstacle to their objectives. As one maneuver to this end, they have indicated through their stooge, left wing Socialist leader Nenni, that they would be prepared to sign a truce with a new coalition government provided de Gasperi stepped down and an independent became Prime Minister, and that the alternative to such an arrangement would be continued disturbances regardless of consequences. It is to be expected that removal of de Gasperi would constitute a resounding victory for the Communists with Italian public opinion, would lead to further steps toward bringing the Communists and left wing Socialists back into the government before the elections next spring, and would create confusion and chaos in the anti-Communist ranks which would be useful in any attempt at violent seizure of power.

Soviet Tactics on Naval Commission - Recent tactics by Soviet representatives on the Four Power Naval Commission for distribution of the Italian fleet have given a further indication of the Kremlin's intentions toward Italy. While the Soviet representative initially displayed a desire to expedite the work of the Commission, he has of late been adopting delaying tactics and trying to restrict the powers of the Commission. Although it was agreed that the Commission should meet in Rome the first day after ratification of the Italian peace treaty, the Soviet representative did not appear in Rome until after the announcement by the US of the renunciation of its share of the Italian fleet. The Soviet representative has consistently blocked notification of the allocations to the Italian Government until last week when his position became untenable. He then insisted that the notification be on a top secret basis. Possible motives for these tactics may be 1) a desire that Italy retain the entire navy in expectation of eventual Communist control, 2) the prevention of unfavorable publicity toward the USSR in connection with Communist efforts to gain

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control during the next few months, and 3) concern over the possibility that the Soviet-allocated ships may be scuttled by the Italians.

Ramadier Government Falls in France - The acute economic situation in France, brought to a head by the wave of strikes, has already led to the resignation of Premier Ramadier. Ramadier's move, following several days of negotiations looking toward the formation of a stronger "caretaker government" to bridge the gulf between de Gaulle and the Communists, was forced by the hostility of the Radical Socialists to the strict Socialist economic program and by basic disagreements between the MRP and the Socialists on measures needed to halt the wage-price spiral. The Assembly failed to give a vote of confidence to the veteran Socialist Leon Blum, but has now endorsed the efforts to the MRP Minister of Finance Robert Schuman to form a new cabinet. However, any coalition government which is formed will face the same economic and political problems which confronted Ramadier, and will have to deal with them more effectively if it is to survive. Meanwhile the spreading Communist-inspired strikes in France may develop into a series of regional strikes which will be identical in effect, with a national general strike. The Communists probably wish to avoid the appearance of a general strike in order to prevent a definite showdown with the government at this time. Such widespread strikes, however, are in line with the "Cominform" directive for the increase of "revolutionary mass action" on all fronts, regardless of adverse consequences to local Communist parties, and the disruption of economic and political structures in order to defeat the European recovery program.

COMMUNIST SETBACK IN CZECHOSLOVAKIA

The moderate parties in Czechoslovakia have managed temporarily to halt Communist advances toward increased domination. The Communists suffered a setback in their efforts to reconstruct the Slovak Board of Commissioners, the highest administrative organ in Slovakia, and the moderate parties have also drawn new hope as a result of the ouster of strongly pro-Communist Zdenek Fierlinger as chairman of the Social Democratic Party.

Fierlinger has been replaced by Bohumil Lausman who strongly believes in democratic practices of government and has courageously decried Communist abuses. Under his leadership the Social Democratic Party may be expected

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to agree with the moderates more often than with the Communists, thus making a strong anti-Communist majority in the National Assembly and cabinet.

Soviet Position Still Strong - The gains of the moderates are, however, not unequivocal. The entire Slovak issue is still far from settled, and Fierlinger, who still retains the favor of the Soviet leaders, can become a strong influence in the country without his party's support. The significance of the moderate gains lies chiefly in the time lost by the Communists in establishing effective control over the country. The preoccupation of the moderates is to hold the line as well as possible, hoping for an improvement in the international situation which would enable them to go over to the offensive. However, the setbacks suffered by the extreme left may now force the Communists to abandon parliamentary procedures in favor of the tactics employed by the Communists in Poland, Rumania and Bulgaria.

GOOD OFFICES COMMITTEE IN INDONESIA

The recently-organized UN Security Council's Good Offices Committee (GOC) has encountered formidable obstacles in the execution of its two major objectives: 1) to carry out the Security Council's cease-fire order; and 2) to create "an atmosphere conducive to renewed political negotiations" between the Netherlands and the Indonesian Republic. Achievement of the first objective has been seriously impaired by the announced Dutch intention to resume police actions in order to evacuate populations of villages allegedly controlled by Republican forces. The GOC has turned down a Dutch request to send observers to cover these actions on the ground that the GOC might thereby appear to sanction continued Dutch action and thus destroy the basis for current cease-fire talks. Efforts to reopen political negotiations are similarly hampered by the fact that the expressed views of the parties to the dispute remain widely divergent. Preliminary talks Republican officials have made it clear that they still expect immediate, unqualified political independence rather than to gain independence gradually under the United States of Indonesia as envisioned by the Dutch-Indonesian Linggadjati Agreement. Official Dutch opinion continues to regard the Republican leaders as incompetent and unworthy, and Dutch authorities continue to encourage the creation of pro-Dutch states within former Republican territory.

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~~Top Secret Summary~~
For the Secretary
January 19, 1948

DEPARTMENT OF STATE
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 Change / classify to CONF
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POSITION OF ITALIAN COMMUNISTS

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Although there is no reason to believe that Communist plans for violent action in Italy have been abandoned, it appears likely that the strong US reaction to the threat of violence in Italy, the unpopularity of the recent trial strikes, and Communist reversals in France have caused the Kremlin and the Italian Communists to review their program. Qualified observers consider that unless they receive Kremlin orders to the contrary, the Italian Communists would prefer to try to gain power through the elections scheduled for April before making any insurrectionary attempt. One factor reinforcing this conclusion is that with the strengthening of the Italian police and armed forces, the firmer attitude of the Italian Government and its broader political base, the present government now appears capable of defeating any Communist campaign of violence or revolution not overtly reinforced by the Soviets or their satellites.

Communist Election Prospects - Observers estimate that although the Communists have lost ground in terms of popular support, they could still under present conditions, along with their left wing Socialist stooges, win 35% of the vote in the coming national elections. If a considerable portion of the electorate could be kept away from the polls through intimidation or otherwise, this percentage would be substantially increased, perhaps to the point where even if the Communists did not win a majority, any government formed without them would lack sufficient parliamentary support to govern effectively. Furthermore, if the Italian Government is forced to reduce the bread ration, the Communist position would be tremendously enhanced and the scales might well be tipped in their favor. Communist strategy may therefore be to secure a postponement of the elections in the hope that the government will be forced to make the ration cut before elections are held.

Communist Congress at Milan - The threat of violence or insurrection, however, has by no means disappeared and such an attempt will be made at any time it is dictated by the interests of the Kremlin. The training and organizing of Communist direct action forces is continuing, and the Communist apparatus has quietly rehearsed movements of 20 to 30 thousand of its members to the major cities of northern and central Italy, including Rome, by rail and truck. The seriousness of the Communist threat is confirmed by reports on the Communist congress in Milan, which was attended by delegates from numerous other European countries. Italian Communist leader Togliatti is said to have told the congress that parliamentary procedure was unnecessary in its present form and that force should not be excluded as a means to the establishment of a "new democracy". The chief committee of the congress, divided into military and political sub-

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committees, is reported to have considered plans for insurrection in Italy and France. It is also reported that Spanish Communist representatives who entered Italy clandestinely for the meeting stated that the Spanish Communists were prepared to set in motion a series of disorders in Spain coordinated with developments in other countries; that the question of a serious Communist offensive to lower production and create discontent in western Germany was discussed; and that it was decided the French Communists would proceed with the strengthening of their organization and illegal apparatus.

Italy Primary Target of Kremlin - Reports on the congress in Milan give further indication that Italy rather than France is for the present the Kremlin's primary target in western Europe. Observers consider that while the Communists will continue to try to prevent economic stabilization in France, they do not intend to foment disorders until the economic situation further deteriorates. It is believed that for the immediate future the French Communists will use tactics of encouraging slowdowns and secretly sabotaging French industry with a view to creating popular misery which can later be exploited, while striking at the government "legally" through propaganda and parliamentary attacks.

COMMUNIZATION OF HUNGARY

Although the political control of the Communist-dominated government in Hungary is complete in fact, if not in appearance, the situation in Hungary has not yet deteriorated to the extent that it has in the Balkan states. Factors which have thus far combined to slow the process of communization are the essentially western orientation of the Hungarian people, the greater and more enlightened strength of the Roman Catholic and Protestant churches in Hungary as compared with the Orthodox church in Bulgaria and Rumania, the advanced stage of Hungarian culture and education, the basic individualism and conservatism of the Hungarian peasant, a greater industrialization and, especially, the popular consciousness of Hungary's geographic location as a racial island in a Slavic sea. However, since the flagrantly fraudulent Hungarian elections of August 31, 1947, which the Communists manipulated to confirm their position of power, all effective political opposition to complete Communist control has been disorganized, imprisoned, intimidated into silence or has fled abroad, and it appears that the process of economic and social sovietization can henceforth go forward more or less at will. The police and army are being brought effectively under Communist control, civil liberties have been suppressed, and the groundwork for the eventual sovietization of the Hungarian economy has been laid through outright Soviet control of the extensive former German assets in Hungary and the nationalization of heavy industry and banks.

Future Prospects - The vast majority of Hungarian people of all ranks and classes still look toward the west and hope for eventual liberation from Soviet and Communist domination. Communist consolidation of the positions gained with the support of the Soviet occupation authorities

is, however, steadily progressing, and the possible means to halt this process, either through the implementation of the Hungarian peace treaty or through effective UN action, appear to be extremely limited at this time. The Hungarian people, fearing a new war and realizing the limited extent of possible remedial measures in their behalf, are nevertheless believed to be most desirous of continuing evidence of western interest in and support for their problems. Historically they have always feared and opposed Russian totalitarianism and imperialism, be it under old or new Czars. On the other hand, having experienced rule by a right-wing authoritarian regime which was characterized by certain feudal aspects, they emerged from the war with new hope of achieving a government based on democratic principles and processes, and have a deep interest in the efforts of western governments to create a peaceful and economically sound Europe. Unless there is continuing evidence of our interest in the welfare of the Hungarian people and of progress in our efforts to aid in European recovery, which the average Hungarian feels will counteract the objectives of his Communist masters, all hope and morale will eventually disappear and the vast majority of Hungarians, like the Bulgarians, may in their own self-interest resign themselves to the inevitability of Communist dictatorship in southeastern Europe.

BRITISH RELATIONS WITH ARAB STATES

Although Arabs have long felt that the dominant position of the UK in the Near East made the British the archenemy, many Arabs are now beginning to feel that the refusal of the UK either to support or to enforce partition in Palestine indicates that the British may prove valuable friends in the fight to prevent the establishment of a Jewish state. Meanwhile, the UK is quietly improving its relations with the Arab nations while outwardly maintaining a pretense of complete impartiality in Palestine. Despite sincere attempts by the UK to keep the peace in Palestine until the termination of the mandate, there is little doubt that the British have already decided that partition is hopeless solution for the Palestine problem. They are, consequently, attempting to safeguard their vital economic and strategic interests by strengthening their influence with the governments and peoples of the Arab world.

Evidence of British Policy - Several recent developments have indicated improved understanding between the UK and several of the Arab States. An Anglo-Iraqi sterling agreement, providing that Iraq remain within the sterling bloc, was concluded in December. More recently, the Anglo-Iraqi treaty of alliance was renewed. Egypt and the UK have recently concluded a mutually satisfactory financial agreement and may soon re-open negotiations on the Anglo-Egyptian treaty. British efforts to improve relations with Saudi Arabia are to be seen in the recent invitation extended to Prince Feisal, the Foreign Minister, to visit London in February and in Anthony Eden's current visit to Ibn Saud in Riyadh. The UK is giving military aid to the Arabs by fulfilling its long-standing arms contracts with Iraq, Transjordan, and Egypt. The

British in Palestine appear to be covertly selling arms and ammunition to the Syrian Government. Several hundred British ex-army officers are reported to have volunteered for military service with the Arabs, and the Foreign Office has indicated that there is no effective means of preventing them from enlisting.

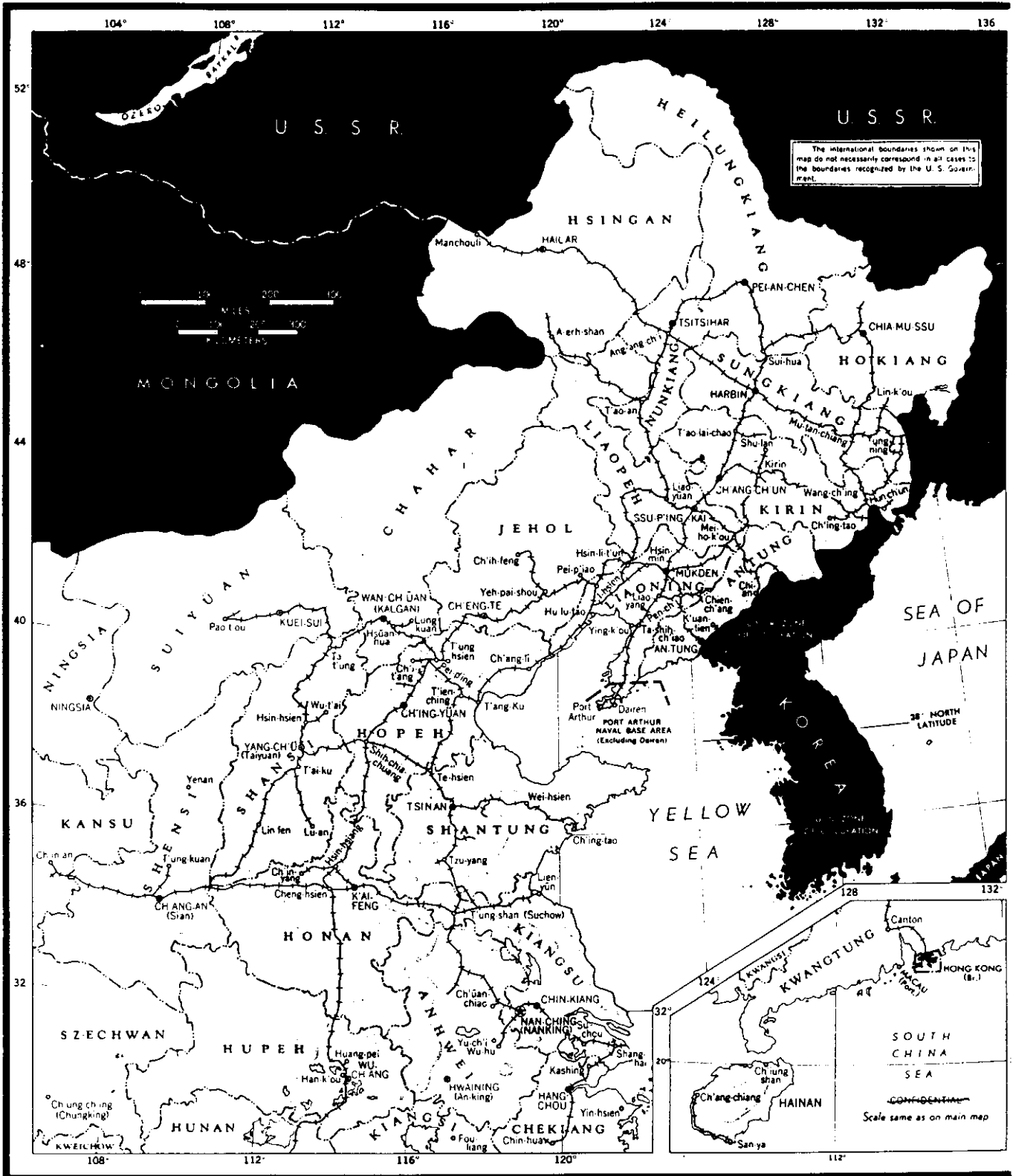
MILITARY SITUATION IN CHINA

The current Chinese Communist offensive in Manchuria, seventh in a series which began a little more than a year ago, demonstrates strikingly the extent to which the Nationalist military position has deteriorated during the year. The focus of Manchurian operations has shifted gradually southward, with Communist forces driving deeper into Nationalist territory. The seventh offensive has brought the civil war for the first time to the outskirts of Mukden, major Nationalist bastion in Manchuria, and has resulted in the interdiction of all rail lines into and within Manchuria. The recent declaration by the Communists of their intention to conquer all Manchuria during 1948 appears to be a realistic estimate of their capabilities.

Broad Communist strategy over the past year has been to contain Nationalist forces within separate geographic areas, to confine the Nationalist units in their areas to the large cities, and then to deny them sufficient supplies of food and fuel. Resultant military and economic attrition is reducing the amount of men and materiel which the Communists need to take these cities. Currently, this process of regional containment and attrition has reached a very advanced stage in Manchuria; it is well advanced in North China and is beginning to develop in Nationalist areas along the Lunghai railroad. If the Communist units in Central China succeed in isolating the Nationalists to the north, a Communist penetration into China south of the Yangtze can be expected to follow a similar pattern. The Nationalists at this time do not appear to possess adequate materiel or manpower to cope with the increased scope of Communist operations.

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~~Top Secret Summary~~
For the Acting Secretary
March 29, 1948

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REACTIONS TO PRESIDENT'S SPEECH

Reactions to President Truman's address to Congress March 17 on the international situation have been extremely favorable throughout the non-Communist world. There is every reason to believe that the speech has greatly encouraged the free nations of Europe and has bolstered their determination to resist any further expansion of totalitarian Soviet Europe. Official comment from the Foreign Ministers of such countries as the UK, France, Belgium, the Netherlands, Austria, and Turkey has been uniformly enthusiastic. The Foreign Ministers of the five countries participating in the western European union all felt that the President had done everything within his power to assist the union. Bevin and Belgian Premier Spaak have both indicated that they did not expect much more at this time than full moral and material support for the western European union along with unofficial consultations. The non-Communist press has also applauded the speech. Typical comments were to the effect that it demonstrates a realization of world responsibility on the part of the US; that it was a solemn warning to the USSR that further expansion will not be tolerated; that by deterring the USSR from further aggression it will serve to prevent war; and that it underwrites the Brussels treaty for a western European union and implies military support for the free nations of Europe. It is interesting to note that the speech produced a definite wavering on the part of two powerful Swedish newspapers which have in the past supported Sweden's stubborn policy of "neutrality" between east and west. About the only unfavorable non-Communist reaction came from the Chinese press which criticized the President's failure to mention China or the Far East. There was a mild note of disappointment in some quarters over the fact that the speech did not go as far as preliminary rumors predicting a military guarantee of the free European nations.

Communist Reactions - There has so far been no indication as to what effect the speech will have on the Kremlin. There is some reason to believe, however, that it hit home in Moscow. In an interview with Molotov on the afternoon of the day after the speech was delivered, Ambassador Smith found Molotov looking unusually pale and more tired than he had ever seen him, and Smith conjectured that President Truman's speech had been the subject of an all-night session of the Politbureau the previous night. Molotov, while not cordial, was very polite, was in an unusually conciliatory frame of mind, and was apparently prepared to make concessions on the housing and customs problem that has been plaguing our Embassy. Behind the iron curtain, portions of the speech

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cooperation will be difficult to achieve. The development of such an organization will depend in large measure on whether the UK alters its present basic attitude toward the CEEC.

CRUCIAL ELECTIONS IN ITALY

On April 18 the Italian people will go to the polls in a national election the results of which will be of vital importance to all the free countries of western Europe. There is only one real issue involved in the elections--whether Italy will remain a free country or will be subjected to a totalitarian dictatorship controlled from Moscow. The Communists, with a powerful organization, strong financial backing and shrewd leadership, are making a determined effort to come to power by "legal" electoral means. At the present time the political situation in Italy is so fluid that it is impossible to make any accurate estimate of the results of the elections or the nature of the new government which will be formed after the elections. Much will depend on developments between now and April 18 not only in Italy but in the international arena. According to present predictions, the Communist controlled "peoples bloc", which includes the Communists and left wing Socialists under Nenni, is likely to obtain between 35 and 45% of the votes with Premier de Gasperi's Christian Democrats receiving 35 to 40% and the moderate left parties now in the government--the Republicans and right wing Socialists under Saragat--polling 10 to 15%.

Danger of Communist Control - In view of the fact that the smaller parties are staunchly anti-Communist, the chances now appear to be that de Gasperi will form the new government and that the Communists will again be excluded. On the other hand, there is a definite possibility that the Communists will receive such a strong vote that it will be impossible for any government to function without them. If they are admitted to the government at all, there is a strong likelihood that through the familiar methods of sabotage and infiltration, they would in the course of time obtain complete control of the government. If the Communists are convinced before the elections that they will be defeated, it seems quite likely that they will try to seize power by violence, and if they are defeated in the elections, there are definite indications that they will make such an attempt. Communist control of Italy would be extremely serious for the free nations of Europe and for our policy of support for free Europe. It would facilitate Communist penetration of France, Spain and North Africa, would weaken the position of Greece and Turkey in their resistance to the USSR, would turn the southern flank of the western forces in central Europe, and would give the USSR a powerful strategic position astride the Mediterranean.

US Support for Democratic Elements - We are doing everything possible to support the moderate democratic elements in Italy without giving the impression of interfering in Italian internal affairs. We

have

have made it clear to the Italians that if they choose to vote into power a government in which the dominant political force would be a party whose hostility to ERP has been frequently proclaimed, we could only consider this as evidence of Italy's desire to disassociate itself from ERP and we would have to conclude that Italy had removed itself from the benefits of ERP. In our information program we are doing everything possible to let the Italian people know that while the choice is theirs, in our opinion it is the choice between freedom and dictatorship. We have demonstrated our support for a democratic Italy by proposing, in concert with the British and French, that the Big Four and Italy negotiate a protocol to the Italian peace treaty providing for the return of the Free Territory of Trieste to Italian Sovereignty. We are now considering taking the initiative in reopening the question of Italy's admission to UN, which has hitherto been prevented by Soviet opposition.

FINANCIAL CRISIS IN CHINA

The threat of an unprecedented financial crisis has greatly complicated the critical military and political problems now facing the Chinese National Government. Deterioration in the government's economic position, as measured by soaring commodity prices and black market exchange rates for foreign currencies, has accelerated at an ominous rate since February 10. In the ensuing six weeks, general commodity prices have doubled, and US dollars on the Shanghai black market have trebled in terms of Chinese currency. The government's official holdings of foreign exchange are believed to be nearing exhaustion. With the possible exception of an immediately implemented US aid program, there are no economic or other factors now in evidence which can halt this accelerated movement toward complete financial collapse. Basically, the deterioration in the government's economic position reflects the general lack of confidence--now approaching panic--in the government's ability to contain the Communist military forces. Important interests in Chinese financial circles appear to be extremely skeptical about the possibility that US aid can be effective. A single major military defeat sustained by Nationalist armies may be sufficient to cause a general refusal to accept the Chinese national dollar as a medium of exchange and a consequent reversion to barter.

Consequences of Financial Collapse - A financial collapse will have immediate and serious implications with respect to the National Government's military effort. The government's ability to maintain its armies in the field will be jeopardized and the possibility of a complete military and political debacle will be imminent if the economic situation continues to deteriorate at its present rate. There is no evidence of either official Chinese determination or a government plan to cope with the mounting inflationary pressures. The apathy with which the National Government is viewing the approaching collapse of its financial structure demonstrates how much more serious and pressing are the military and political problems which currently monopolize the government's attention.

were quoted in the press so as to produce a distorted effect. For example, a Belgrade newspaper consistently eliminated the phrase "free countries of Europe", indicating that these words touched a particularly sensitive spot in the Communist nervous system. Comment in the Communist press characterized the speech as an attempt to create a war psychosis for election purposes, pressure on ERP countries to join a military bloc, blackmail against the USSR, and US intimidation of other countries and interference in their affairs.

COMMITTEE OF EUROPEAN COOPERATION

Although the current meeting of the Committee of European Economic Cooperation reflects a growing recognition by all 16 participating countries of the urgent need of western European economic integration, the majority still appear reluctant to set up the strong continuing CEEC organization desired by the US. The closest approach to the US concept is the French proposal, supported by Italy, for an organization with specific detailed powers and a strong secretariat capable of independent action. Several nations, however, are still reluctant to commit themselves: 1) to support an organization which has sufficient power to unify European recovery efforts; or 2) to join fully in the cooperative measures necessary for European recovery.

UK Opposes Strong CEEC - Despite its assertions to the contrary, the UK in particular still does not wish a strong CEEC, apparently preferring a weak organization in which final authority on economic cooperation remains in the hands of the individual governments. Many of the smaller nations, like Switzerland and Sweden, tend to favor the British approach, as infringing least upon their own sovereignty. The UK attitude, apparent in its cautious approach to such projects as customs unions and multilateral clearing arrangements, is based largely upon the fact that Britain, more than any other participating CEEC country, has extensive non-European economic and political ties. Consequently, Britain considers its recovery to be much more dependent upon direct US aid than on closer economic integration with western Europe, and it fears that such integration might involve weakening its Commonwealth bonds. The UK, therefore, would prefer to preserve its freedom of action rather than commit itself to a strong CEEC.

Dangers of Weak Organization - Unless the continuing CEEC organization is made stronger than appears likely at present, it may be unable to achieve the economic integration of western Europe essential to recovery. Many of the participants at the Paris Conference have recognized that the CEEC must develop full economic cooperation and not confine itself to the mere programming and reviewing of US aid. Without a strong CEEC capable of taking an overall approach to the European recovery problem and resolving or overriding conflicting national views such

cooperation

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~~Top Secret~~ Summary
For the Secretary
April 12, 1948

DEPARTMENT OF STATE
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GERMANY Both the Soviet walkout from the Allied Control Council (ACC) and recent Soviet interference with transportation into Berlin indicate that the USSR: 1) has abandoned hope of using the ACC to hinder the present western European reconstruction program, and 2) intends to accelerate preparations for the establishment of an eastern "German state" whenever the Kremlin decides that the western powers can be successfully blamed for partitioning Germany. In this preparatory phase, the USSR may place the Soviet zone under a "democratic" and "loyal" German administration, created from the Communist-dominated Peoples' Congress and strengthened by trained Germans from the former Moscow "Free Germany Committee". Both the presence of the western powers in Berlin and the functioning of the ACC hamper the realization of the Soviet objectives and, unless allied determination remains obviously strong, further Soviet attempts to eliminate these hindrances can be expected.

RUHR Soviet preparations for possible clandestine activity against US-UK occupation authorities in the Ruhr are indicated by current replacement of known Communist leaders with new party men from the Soviet zone and with thoroughly indoctrinated former prisoners of war. Probable reasons for the replacements are: 1) comparative failure of the present leadership of the Communist Party (KPD) in the Ruhr; 2) Soviet dissatisfaction with the opposition of many old KPD leaders to pro-Soviet policy dictates from Moscow; 3) preparations to go underground in the event of US-UK action against the party; and 4) the danger of using well-known and easily-identified party leaders in clandestine and illegal operations.

ITALY Prospects that the Italian Communist Party will obtain a sufficiently large plurality in the April 18 elections to ensure Communist or left-wing Socialist representation in the next Italian Government have sharply diminished. Concurrently, the party's capabilities for successful large-scale insurrection without active military assistance from Yugoslavia, have been considerably reduced. Unless the Communists receive substantial outside aid, the government

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now appears sufficiently strong to prevent its overthrow by force and to put down large-scale rebellion. Whether the Kremlin, even under these circumstances, will direct an insurrection either before or after the elections cannot be predicted. If, as seems probable, the Communists fail to secure representation in the new government, they will then launch a new program of strikes and sabotage to wreck the recovery program and discredit the government.

In the past few months the Italian armed services and security forces have been greatly strengthened, not only by new equipment but also by a considerably improved morale. At the same time the Communist para-military forces have been weakened and to some extent disrupted by government seizure of clandestine munitions dumps and caches and the interception of arms shipped in from abroad. No evidence available indicates that Yugoslav forces--the most logical source of outside assistance--are being prepared for action in Italy. Finally, and probably most important, the Italian masses appear less inclined than ever to support a Communist uprising and have become increasingly anti-Communist in their attitude.

FINLAND Although Finland gained substantial concessions from the USSR during negotiations on the recently signed treaty of mutual assistance, the treaty will provide the USSR with an excuse for further moves against Finland whenever the Kremlin considers it necessary. Future Soviet action toward Finland will depend on the course of events within Finland and on international developments. An intensification of the "cold war" would prompt the Kremlin to hasten the campaign for Communist domination of Finland. Similarly, a pronounced rightist swing within Finland or increased Finnish cooperation with the west might also persuade the USSR to move more quickly. Finnish non-Communists, therefore can be expected to vote for ratification of the treaty, to maintain superficially friendly relations with the Communists and the USSR, and to move cautiously in their relations with the west.

GREECE Recent Greek Army successes have probably been sufficiently dislocating to the guerrilla forces to necessitate postponement of the large-scale offensive reportedly

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planned by Markos for the latter part of April. It is possible that the army, by retaining the initiative, can prevent the successful launching of any concerted guerrilla offensive in the near future. Nevertheless, the army victories are limited in extent, and a decisive defeat of the guerrillas is not yet in prospect.

EGYPT The short-lived strike of the Egyptian police, although brought on by purely economic grievances, may indirectly lead to a settlement of Egypt's long-standing differences with the UK over the Sudan and British military rights in Egypt. The Egyptian Government's inability to cope with the strike has seriously impaired Prime Minister Nokrashi's prestige and may bring about his downfall. His most likely successor is Senate President Heykal, who has consistently maintained that successful termination of the Anglo-Egyptian deadlock is essential to Egypt's future.

CHINA Despite Chiang Kai-shek's announced unwillingness to be a candidate for the presidency of the Chinese National Government, he will undoubtedly be elected to this position by an overwhelming majority of the National Assembly on April 12. Party leaders are unanimous in stating that Chiang is China's indispensable man for the presidency. Thus, the effects of Chiang's action have been to assure him the presidency, to rally the full support of the Kuomintang to his leadership, and to enhance his authority. In view of the basic and growing weaknesses of the Kuomintang and the National Government, however, this strengthening of Chiang's political position may prove to be temporary. Chiang's maneuver was undoubtedly prompted as a measure to offset these weaknesses. The Kuomintang had become disrupted by increasing factionalism and by mounting discontent with Chiang's leadership to such an extent that there was danger that the National Assembly would be the scene of public attacks on his policy by party members, thus leading to an open split.

"For the moment, Chiang has secured from Kuomintang leaders a clear mandate to continue his rule, and consequently he will be under less pressure to alter his policies or reorganize the government. Unless the government demonstrates under his leadership more success than hitherto in coping with its enormous military and economic problems, dissatisfaction and criticism will inevitably

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mount and will be more difficult to silence.

SIAM Control of the Siamese Government by a group of military extremists now appears assured. Once foreign recognition of the Abhaiwong Government had been obtained, the extremist military group demanded the resignation of the government because of its inability to bring about the return of normal economic conditions. The military group then declared to the Regency Council that only Marshal Phibun would be acceptable as the new premier. In view of the determination of the members of the Abhaiwong Government to boycott a Phibun Government, it is expected that Phibun will experience difficulty in forming a new cabinet of any significant strength and that its tenure of office will be solely dependent on army support. Every effort will be made during the assumption of office by the new government to observe all legal forms in order to avoid jeopardizing recently-obtained recognition, but the essential character of government control as based on military force will remain unchanged.

KOREA A developing split among South Korean rightists over the choice of candidates for the forthcoming UN-observed election and over the form a provisional government should take when the assembly convenes has made Syngman Rhee's chances of emerging as chief of the South Korean Government almost certain. Rhee's autocratic policies as head of this government would probably assist the USSR in its efforts to win away South Korean leaders. Future Soviet moves will probably include demands for the withdrawal of occupation troops both from North and South Korea and pressure for recognition by the UN of a Soviet-sponsored People's Republic.

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~~Top Secret~~ Summary
For the Secretary
April 26, 1948

DEPARTMENT OF STATE
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PROSPECTIVE COMMUNIST STRATEGY

The defeat suffered by the Communists in the Italian election has further reduced Communist capabilities for assuming power and has vastly improved the morale and confidence of the anti-Communists in both Italy and France. An increasing number of left-wing European Socialists and fellow-travellers may now abandon their Communist association. The Communists in western Europe thus are confronted with a considerable loss in political influence in addition to their already reduced capabilities for revolutionary action.

Possible Lines of Soviet Action - Italy and France may consequently enjoy a brief respite while the Communists regroup their forces and revise their strategy. The USSR, however, can be expected to maintain its pressure in Germany. Moreover, it will probably continue its aggressive tactics in the Near East. In Iran, continuing Soviet pressure may eventually lead to actual intervention, professedly based on the 1921 Soviet-Iranian Treaty. The deteriorating situation in Palestine may soon present the Kremlin with an irresistible opportunity for greatly expanded covert intervention. Although the satellites continue to exercise caution in their support of the guerrilla forces in Greece, they are capable of vastly increasing the scale of their covert aid. In Latin America, the USSR can be expected to seize upon any favorable opportunities for exploiting local unrest or violence.

Communist Tactics in Western Europe - For the immediate future, Communist activities in western Europe are likely to be directed toward rebuilding the popular front rather than an early or determined bid for power. A Communist drive to recover the allegiance of the non-Communist left is indicated by these recent developments: 1) French Communist Leader Thorez on April 18 called upon Communists, Socialists, and Catholics to unite in defense of French "liberty and independence"; 2) the Cominform Journal, reversing its original position, is now professing to represent all workers' parties, not merely the Communists; 3) the German Communists recently voiced approval of a "Middle-Class Auxiliary" of the Socialist Unity Party, which might conceivably develop into the long-expected "nationalist" movement based on the Bismarckian concept of Russo-German

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cooperation; and 4) the Kremlin reportedly has issued a directive to the French Central Communist Committee calling for a program of non-violence in western Europe and intensified activity in Germany and the Near East.

Defeat of ERP a Main Goal - Defeat of the European recovery program remains a prime objective of Communist strategy. Strikes and industrial sabotage, conducted ostensibly on the basis of local economic issues rather than political considerations, can be expected. Although Communist propaganda will continue to impugn US motives in promoting recovery, the Kremlin may henceforth moderate its attacks upon present western European governments. However, Communist propagandists may intensify their efforts to contrast "peaceful" Soviet intentions with US "warmongering" and "imperialist designs." Such a drive would be designed to win the support of those western Europeans who are prepared to seek "peace at any price" and to encourage a relaxation of western, and particularly US, military preparedness.

Situation in Greece - In Greece, the Kremlin is also faced with a possible reduction of Communist capabilities. Differences between Greek Communists and Soviet-satellite Communists have apparently arisen over problems concerning Soviet aims in Greece and the conduct of the civil war. Greek Communist leaders are reportedly disturbed by the failure of the satellites to provide the guerrillas with enough aid to halt the continuing successes of the Greek Army, and the Minister of Interior in the Markos government is said to be distrustful of the "selfish" policy of the USSR and fearful that Yugoslavia may be planning to seize Greek Macedonia. Moreover, certain Greek Communist leaders believe that the primary Soviet intention in the civil war is to wage a long campaign of economic attrition against the US and not to effect the rapid military defeat of Greece. In view of the successful operations of the Greek Army, it is apparent that the Kremlin must decide soon whether to authorize a drastic increase in aid to the guerrillas or allow their gradual defeat by the Greek Army.

May Day Strikes in Latin America - Although Communist May Day demonstrations in Latin America may result in local disturbances, present indications are that the Latin American governments will be fully capable of controlling any outbreaks. In Mexico, the electrical workers have threatened to call a May Day strike. If they are joined by the petroleum workers, miners, and railway workers (all closely allied with the electrical workers by inter-union agreements), the

resulting strike could cause a general paralysis of the country and threaten the stability of the Mexican Government. Sporadic violence may break out in Cuba, and possibly in a few other countries, though there are no indications at present of coordinated plans for strikes or public disturbances.

USSR Several measures recently adopted by the USSR are designed apparently to increase the Soviet Union's military and economic capabilities and to facilitate a transition from a civilian to a military economy. By a recently-published decree, military ranks are established for all administrative, engineering, and technical personnel now in industries under jurisdiction of the Ministry of Non-Ferrous Metallurgy and the Ministry of Internal Affairs. This decree, which is almost identical with the one issued in 1947 to govern the coal ministries, may indicate the formation of quasi-military organizations. In addition, civilian defense groups are reportedly being established for each city block in Moscow, and air raid systems are being reorganized.

GERMANY Increased military activity by the USSR in eastern Germany, particularly in Berlin, during the past 30 days can probably be regarded primarily as measures to consolidate the Soviet postwar position in western Europe and to continue the war-of-nerves against the western powers. Such military activity is estimated to have the following objectives: 1) a further sealing of the western border of the Soviet sphere; 2) normal replacements for Soviet armed forces in Germany; 3) participation in the program of maneuvers now being conducted in all territories occupied by the USSR; and 4) a contribution to the war-of-nerves designed to decrease or eliminate western representation in Berlin and the Allied Control Council. Although increased military activity may be expected to continue for some time, it is probably not a preparation for movement against western Europe.

CHINA Political disintegration in Nationalist China, both in the provinces and the central regime at Nanking, appears to have reached a relatively advanced stage. In addition to well-established separatist tendencies in south China, a feeling of regional independence is apparently growing among Nationalist civil and military officials in north China, largely as a result of the inability or the unwillingness of the National Government to extend realistic military support. Some direct overtures from local military commanders for US military aid, a tendency

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among provincial governments to raise and support their own levies (in at least one case in contravention to National Government ordinances), and evidence of increasing liaison among North China leaders -- all indicate that while north China officials still hope for assistance from Nanking, they have ceased to expect it.

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