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22 May 1961

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CENTRAL

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BULLETIN



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State Dept. review completed

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USSR: A modest but significant change of Soviet economic policy in favor of the consumer seems implicit in Khrushchev's 20 May remarks to exhibitors at the British Fair in Moscow. He said, "We consider our heavy industry as built. So we are not going to give it priority. Light industry and heavy industry will develop at the same pace." Economic policy after World War II has consistently provided the consumer with an annual increase in the quantity of manufactured goods, but this increase has not kept pace with the over-all annual growth in the output of all industry; thus consumer-oriented production has declined as a share of total industrial output. Khrushchev's comments imply that this decline will be slowed or halted. Because the light industrial base is small compared to that of heavy industry, such a change will not require a large diversion of resources away from heavy industry. [redacted] Page 8)

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Iraq: [An uneasy atmosphere prevails in Baghdad as disillusionment with the Qasim regime continues to spread throughout Iraq. On 19 May Baghdad police broke up a small demonstration attempted by trade unionists shouting anti-Qasim slogans. Prime Minister Qasim attended a public function in a Baghdad suburb the same day, and the military and police guard in the area was the heaviest noted in many months. Several different Iraqi groups--the Moslem Brotherhood, the Iraqi Baathists, a group of army and air force officers, and an organization of prominent Iraqi exiles--are all reported to be engaged in separate plotting to assassinate or overthrow him. Such conspiracies would be more likely to succeed, however, if they had substantial army support, which at present seems to be lacking.]

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Western Europe: [Belgian Foreign Minister Spaak, who played a leading role in the negotiation of the Common Market (EEC) treaty in 1955 and 1956, expressed to Ambassador Mac-Arthur on 16 May reservations regarding Britain's accession to the EEC. Spaak doubted London would actually accept the "principles" of the EEC and declared it would be a "disaster" if the]

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[price paid for British adherence were the "death of European political integration." Spaak said he had recently told the French ambassador that Belgium was prepared to make concessions to get De Gaulle's confederation plan under way, since he thought political ties among the six EEC countries should be strengthened before London asked to be admitted. London seems increasingly disposed to seek EEC membership despite the continued ambiguity of official statements, and a decision to do so is probably imminent.]

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Soviet Consumer Goods Production May Increase

Khrushchev's remarks made clear that the change in economic policy benefiting the Soviet consumer would be limited to the relationship between the annual growth rates planned for "Group A" (which designates the means of production in Soviet jargon) and for "Group B" (consumer goods). The 1961 plan called for a 9.5-percent increase for Group A and a 6.9-percent increase for Group B. The subordinate position relegated to consumer goods is shown by the fact that investment allocations for Group B account for something more than one tenth but less than two tenths of total investment in industry.

The regime announced last December that it considered the overfulfillment of plans by heavy industry warranted some reallocation of resources toward fulfilling "public demand." The continuing critical commentary on the failure to achieve planned agricultural output goals and Khrushchev's earlier remarks on these subjects suggest that the reduction in the disparity between the growth rates for heavy industry and consumer goods may be made, at least in part, by a transfer of resources from heavy industry--slightly slowing its growth rate--to agriculture rather than to light industry.

Modest policy changes in favor of the consumer have been common during Khrushchev's regime; they are intended to provide, in lieu of coercion, the material incentives deemed necessary for a growth in labor productivity, to improve the foreign image of the Soviet citizen's lot, and to influence favorably the attitude of the populace toward the regime.

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Spaak Has Reservations Regarding Britain's Membership
In the Common Market

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[In his wide-ranging review of what he called the "problem of Europe," Spaak made it clear he felt the economic and political unification of Europe would be achieved only if the present momentum is maintained. European integration could be stalled or frustrated, he believes, either from "without" if Britain's adherence should involve the sacrifice of the "principles and institutions" of the EEC treaty, or from "within" if De Gaulle and France should become "totally recalcitrant and uncooperative." Given the difficulties Britain may have in accepting the EEC as it stands, Spaak feels it necessary that further steps be taken to strengthen ties among the EEC members. He believes that continued progress by the EEC would encourage London to join in its own self-interest.]

[To strengthen the EEC politically, Spaak is willing to proceed from De Gaulle's confederation plan. This plan is currently stalled, in large part by Dutch opposition to consideration of NATO problems by the confederation, and a 19 May meeting to discuss the plan was postponed until July. At his meeting with the French ambassador, however, Spaak said he would not support the Dutch view and would even make other concessions if De Gaulle in turn would agree to certain steps to strengthen EEC institutions. In explaining to MacArthur this position, Spaak admitted he is "not encouraged" by De Gaulle's views either on Europe or NATO, but feels it must be recognized that De Gaulle now is the dominant figure in Europe and should be "utilized rather than frustrated." Spaak doubts France can in the long run dominate Europe and believes the other five EEC countries might be able to "force" De Gaulle to be more forthcoming in NATO discussions.]

[Since Spaak's prestige in European and NATO affairs is considerable, his position suggests that the Common Market will be extremely cautious in considering British entry. There have been a number of indications that British opinion is rapidly evolving in favor of at least a conditioned bid for membership, despite the continued ambiguity of official public statements and repeated reassurances that London will not]

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Charm Britain's obligations to Commonwealth members and to the countries of the European Free Trade Association (EFTA). The American Embassy in London believes that the government statement to the House of Commons on 17 May--which strongly emphasized the advantages of a close British link to the EEC--is part of an educational campaign to enlist public support for negotiations to that end.]

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