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866.01/1-1955

FOREIGN SERVICE DESPATCH

FROM : American Legation, Bucharest

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DESP. N.

TO : THE DEPARTMENT OF STATE, WASHINGTON

Assigned to DES
January 19, 1955

REF : Despatch No. 116 of January 5, 1955

Action taken filed

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| 47 For Dept. Use Only | ACTION | DEPT. |
| | REC'D | F OTHER |
| | OLI-7 | OC/R-2 REP-2 Evr-5 F/31/5/P-1 |
| | 1/26 | CIA-7 Army-3 <u>Adm</u> <u>3DIR/DES</u> <u>USIA-4</u> |

SUBJECT: Railroad Workers' reaction to derationing of December 26, 1954

The negative public reaction to the derationing resolution of December 26, 1954 appears to have resulted in open protest by at least one important worker group. The story is circulating in Bucharest today that the employees of the Rumanian Railroad (Calle Ferate Roman, or CFR) are demanding to see Gheorghiu-Dej to protest the decree.

The story is so widespread that it is believed that there must be some truth to it - although to what extent it has been garbled and distorted in the telling cannot be estimated. It is known that the railroad workers are at least as discontented as any other group of workers in the country and, because of their mobility, know more about national conditions and are more able to maintain contacts among themselves than any other large occupational group.

At any rate, the version heard most often is that the railroad workers have asked to see Gheorghiu-Dej in order to demand that their salaries be increased in proportion to the price increases resulting from derationing. The slight increases granted by the Resolution of December 26 are not considered sufficient. They have appealed to Gheorghiu-Dej personally because of his past history as a militant Communist railroad worker. Some versions of the story mention action by the CFR union but, since the union is nothing but an arm of the Communist regime, there appears to be little truth in this.

Such requests by workers for increased pay could be very embarrassing to the government. Derationing was, in a sense, forced on the regime because of its inability to maintain supplies of rationed goods at the low rationed prices. The increases in prices were intended (in part) to reduce the purchasing power of the urban population in order to bring the situation under control. If wages and salaries can be kept low it might be possible to keep the drift toward inflation down to a slow speed. But once any large group got an across-the-board pay increase inflation would quickly get out of control. For this reason, it is not expected that the railroad workers' demands will result in anything more than silence on the part of the regime - and perhaps a few arrests.

The pressure for wage increases will go on however, and if the price rises associated with derationing prove a great enough disincentive to adversely

.../affect production,

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affect production, the efforts of the regime to curb inflation will prove unsuccessful. Pressure on industrial managers to maintain production in the face of these demands may even result in their pushing wages up in a haphazard, extra-legal way. This would accomplish gradually what the regime seeks to avoid doing suddenly.

Along with the railroad workers' story, the residents of Bucharest continue to circulate stories indicating a general fear of impending currency reform. People have so little faith in the continuing value of the money that they repeat, with credence, stories to the effect that informal private contracts are now being made in terms of sugar. That is, if the price of a piece of work done in the "private sector" is 1,000 lei, a notation is made of the amount of sugar which could be bought for that amount and it is agreed that payment will be made "after currency reform" in the amount of the new money which will buy the amount of sugar agreed on. Whether or not this story is literally true, there is a great reluctance to hold on to currency and a new currency reform is expected.

It seems probable that there will be a new currency reform at some time in the future but, if only because the last one was so recent (1952), it is believed that the regime will do all in its power to avoid the next one. Essentially, a currency reform is only a formal confiscation of excess purchasing power which has accumulated due to the difference between what is produced in the country and what goes to the population in the form of consumer goods. The regime would prefer to keep this confiscation informal and covered by the difference between wages and prices. Since it has neither the control over its foreign trade, the cooperation of its people nor the financial skill to manage this indefinitely it may be forced, sooner or later, to repudiate its currency. But it will try to avoid this step as long as possible.


Richard Funkhouser
Chargé d'Affaires a.i.

DIVISION OF REVENUE FOR U.S.S.R.
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