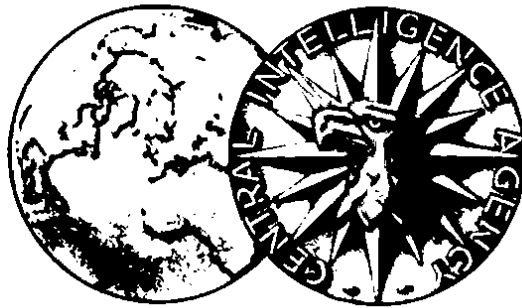


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FRENCH LABOR UNREST IN 1950 AND ITS IMPLICATIONS FOR THE ATTAINMENT OF US OBJECTIVES IN WESTERN EUROPE



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FRENCH LABOR UNREST IN 1950 AND ITS IMPLICATIONS FOR THE ATTAINMENT OF US OBJECTIVES IN WESTERN EUROPE

SUMMARY

French labor discontent will be among the basic factors contributing to a slowing down in 1950 of French progress toward objectives that the US has set for Europe. The following specific results of this dissatisfaction are to be expected: (1) the expanded efforts, which the whole French nation must now make in support of the ERP's long-term aims, will be retarded more than had been anticipated; (2) France's fulfillment of its role in the first year of the MDAP will be rendered more difficult; and (3) because the hoped-for increase in the economic and political strength of France will probably be retarded while Germany's recovery continues, the chances are lessened that the French will attain the position of leadership on the continent which has been assumed in US planning. A major factor in all these unfavorable trends will be the Communist-dominated General Labor Confederation (CGT), exploiting labor's economic grievances.

Substantial reduction of French labor's dissatisfaction over the next few years could be accomplished only by a decrease in the disparities and inequities that result from the widely varying standards of living in France, a general increase in the standards of living, or both. Progress in either of these directions will, however, be slight at least through 1950. The basic problem will be solved neither through such wage increases as are likely in the next few months nor through any discrediting of Communist leadership of the General Labor Confederation (CGT).

Ineffectual efforts of union leaders to achieve substantial improvement in labor's purchasing power, as well as the workers' intensified discontent itself, will produce adverse consequences for French economic activity and political stability. The direct effects in 1950 are expected to include:

(1) Increased unrest among the workers and their leaders, encouraged, of course, by the CGT.

(2) A growing number of strikes, both local and industry-wide.

(3) Intensified labor pressure on the government.

(4) An appreciable rise in money-wage levels, perhaps amounting over the year to 15-20 percent, accompanied, however, by a corresponding rise in the cost of living.

(5) Diminished incentive toward maximum production among individual workers.

The anticipated strikes will be among the major developments which will probably retard the increase of industrial production and of productivity in 1950. The present degree of stability of the French economy, moreover, will be impaired in 1950 by the disturbances in production, the growing antagonisms in labor-management relations, and the inflationary impact resulting both from interruptions in the scheduled production of goods and from the expected rise in money wages.

Third Force Governments—the only kind of French Government foreseeable with the present Assembly—will be increasingly vulnerable to labor pressure, which can be ex-

Note: The intelligence organization of the Department of the Air Force has concurred in this report; for dissents by the Departments of State, Army, and the Navy, see Enclosures A, B, and C, respectively. This report contains information available to CIA as of 15 February 1950.

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erted directly either by labor's political influence on the middle-of-the-road parties or through work stoppages. The Communist Party may well succeed, at least temporarily, in reversing its steady loss of influence in France in 1949.

The modest capabilities which France may gradually develop for supporting the MDAP with materiel and equipment will be limited in part by the effects of labor unrest through

1950. The CGT's long-range capabilities for hampering the MDAP will be assisted by these effects, despite any reluctance the non-Communist workers may have to answer clearly political CGT calls for work stoppages. Furthermore, labor's discontent will have adverse consequences for the MDAP through the wage increases likely to be won, which will make it more difficult for the government to increase its volume of direct defense expenditures.

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FRENCH LABOR UNREST IN 1950 AND ITS IMPLICATIONS FOR THE ATTAINMENT OF US OBJECTIVES IN WESTERN EUROPE

French labor discontent, which has been building up steadily over the past six months, will be aggravated in 1950. This prospect is of particular concern to the US because labor unrest will be among the basic factors which will contribute to a slowing down of French progress toward objectives that the US has set for Europe. Although it is impossible to make specific quantitative estimates of the direct or residual effects of labor unrest as such on progress toward particular US goals, it is demonstrable that the effects now anticipated will have seriously adverse consequences for the US. Specifically, the following results are to be expected: (1) the expanded efforts, which the whole French nation must now make if the ERP is to be concluded in 1952-53 with reasonable assurance of long-term economic gains, will be retarded more than had been anticipated; (2) France's fulfillment of its role in the first year of the MDAP will be rendered more difficult, with adverse effects on the development of the North Atlantic Alliance; and (3) because the hoped-for increase in the economic and political strength of France will probably be retarded while Germany's recovery continues, the chances are lessened that the French will attain the position of leadership on the continent which had been assumed in US planning. A major factor in all these unfavorable trends will be the Communist-dominated General Labor Confederation (CGT), which will derive considerable advantage from exploiting labor's economic grievances.

Substantial reduction of French labor's dissatisfaction over the next few years could be accomplished only by a decrease in the disparities and inequities that result from the widely varying standards of living in France*

* See Appendix I.

and/or by a general increase in standards of living. Progress in either of these directions will, however, be slight at least through 1950. The basic problem will be solved neither through such wage increases as are likely in the next few months nor through any discrediting of Communist leadership of the General Labor Confederation (CGT).

Ineffectual efforts of union leaders to achieve substantial improvement in labor's purchasing power, as well as the workers' intensified discontent itself, will produce adverse consequences for French economic activity and political stability.* Because it will be unable to paralyze the economy or to gain decisive political power, labor will be unable to force prompt and liberal concessions from the government. Obviously this inability to force a substantial rise in real wages will prolong labor's dissatisfaction and the ill effects that will follow.

The direct effects in 1950 are expected to include:

- (1) Increased unrest among the workers and their leaders, encouraged, of course, by the CGT.
- (2) A growing number of strikes, both local and industry-wide.
- (3) Intensified labor pressure on the government.
- (4) An appreciable rise in money wage levels, perhaps amounting over the year to 15-20 percent, accompanied, however, by a corresponding rise in the cost of living.
- (5) Diminished incentive toward maximum production among individual workers.**

* For recent and prospective aggravation of worker discontent, see Appendix II.

** These direct effects are more fully discussed in Appendix III.

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1. Economic Considerations.

The anticipated strikes will be among the major developments—including competition in foreign markets, continued deficit-financing of the budget, and decreasing ECA aid—which will probably retard the increase of industrial production in 1950.* Interruptions in the flow of materials and in production processes over a number of months will act as a drag both on the volume of production and on productivity (rate of output per man-hour). Productivity will be adversely affected also by lowered labor morale. Besides directly impairing the workers' efficiency, lower morale will render them more receptive to Communist propaganda which charges that the demand for higher productivity is a capitalist device for exploiting the workers without recompensing them through higher wages.

The French must, however, not only maintain but also increase substantially their production levels in the next two years and must as well make rapid strides in reducing production costs, in which higher productivity is a vital factor. Both these achievements are essential in order that France may expand exports and balance its foreign payments accounts by the end of the ERP without suffering a decline in the standard of living. French industry and agriculture are already insisting that they be given some time to cut costs before accepting keen foreign competition.** Such competition, nevertheless, is inherent in full economic integration, without which ECA believes a high level of economic activity is impossible for any Western European nation.

The present degree of stability of the French economy—as well as planned levels of

* By January 1950, the French production index still had not advanced beyond the May 1949 post-war peak of 131 percent of 1938.

** A tentative OEEC study (September 1949) of comparative labor costs per unit of output established the following indexes of minimum costs compared to 1938: France, 206; West Germany, 141; UK, 175; Netherlands, 185; US, 190; and Italy, 194. Although average industrial productivity rose about 15 percent in France in 1949, it is still only slightly above 1938 levels and is at approximately one-fourth of present US levels.

economic activity—will be impaired in 1950 by disturbances in production, the growing antagonisms in labor-management relations, and the inflationary impact resulting both from interruptions in the scheduled production of goods and from the expected rise in money wages. Existing inflationary pressures (see Appendix II) are likely to remain sufficiently strong for several months so that wage increases in the major industries will tend to encourage further price increases. An inflationary effect will almost certainly be produced by the wage increases which cannot be avoided in the nationalized industries. Partly in order to meet their expanded wage costs, the government will very probably be forced, in view of political handicaps, to engage in greater inflationary borrowing than has been necessary since 1947.

Such a development in public fiscal policy, as well as a prolongation of the current steady price rise, would be a fundamental blow to the considerable improvement over the past two years in the stability of the French economy. Further improvement in this stability, which ECA pursues both in its direct ERP dealings with the French Government and, in part, by its accelerated campaign for European economic integration, will thus be hampered by the residual effects of labor discontent.

2. Political Considerations.

Third Force Governments—the only kind of French Government foreseeable with the present Assembly—will be increasingly vulnerable to labor pressure. This pressure can be exerted directly either in the form of demands and warnings of labor's spokesmen or through actual work stoppages. Indirectly, all the adverse consequences of labor's unrest—as it affects production, productivity, price levels, and Communist capabilities—will tend to magnify the disagreements among the middle-of-the-road parties.

Even before the Socialists' withdrawal from the government early in February 1950, labor could exert considerable political pressure on Third Force Governments in that the anti-Communist *Force Ouvrière* (FO) was frequently able to influence government policy through the Socialist ministers, while the

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Christian Labor Confederation (CFTC), through its connections with the left wing of the Popular Republican Party (MRP), was and remains able to influence its actions. The current seizure of the initiative by labor, which led to the Socialists' withdrawal from the already wobbly Third Force coalition, risks the downfall of the present government and, subsequently, the dissolution of the Assembly. Although the Socialists apparently hope to avert a showdown in the Assembly which might hasten this event, labor is now in a position to force their hand in pressing for prompt satisfaction of its demands. Meanwhile, the Socialists' withdrawal from the coalition deprives the government of their restraining hand on non-Communist labor's strike activities.

Regardless of any changes in the government, the Communist Party through the strike tactics and the enhanced prestige of the CGT may well succeed, at least temporarily, in reversing its steady loss of influence in France in 1949—a trend which would somewhat strengthen its political power.

3. Military Considerations.

The Mutual Defense Assistance Program (MDAP), although it does not anticipate any French contribution in the next few months beyond that of manpower, does entail utilization at a later date of the modest capabilities which France may gradually develop (with US aid) for furnishing materiel and equipment. The effects of labor unrest will be a limiting factor on such capabilities through 1950.

The French Communist Party has already revealed its determination to wage an unre-

mitting struggle in France against the MDAP. The CGT's long-range capabilities in this respect will be assisted by the direct effects of labor discontent, despite any reluctance the non-Communist workers may have to answer clearly political CGT calls for work stoppages in obstruction of MDAP shipments. The Communists will fully exploit the CGT's strike tactics and membership drives, as well as the agents it maintains in industries critical for the progress of the MDAP. As the workers in the near future increase their efforts to obtain wage increases, the CGT will find it more and more feasible to call strikes on economic grounds which will at the same time promote their anti-MDAP objective. The CGT's position as the strong champion of metal workers and dockers will be especially useful to the Communists' efforts to discredit the program and disrupt the production and distribution of armaments. Despite some government progress in reducing direct Communist penetration of labor in the nationalized industries, the Party still has agents, particularly in the aircraft industry, capable of causing work stoppages and sabotage.

Aside from the assistance which the Communists may be expected to derive from labor unrest, the workers' discontent will also have adverse consequences for the MDAP through the wage increases likely to be won. These, by seriously aggravating the government's tight budgetary position, will make it more difficult for the government to increase its volume of direct defense expenditures, which it would undertake in any event only after a general and sizable increase in productivity permitted a considerable diversion of productive capacity to defense purposes.

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APPENDIX I

LABOR'S GRIEVANCES

French labor expresses its basic grievances—multiple and often complicated—along four general lines:

(1) The total income (from wages and social benefits) of many types of workers has not risen in proportion to the increase in living costs.

(2) The working class as a whole has not received its share of the rising national income.

(3) Particular groups of workers have suffered inequities as a result of periodic adjustments in social benefits.

(4) Social benefits, often awarded to workers in lieu of wage increases, can (in the worker's mind) substitute only in part for actual pay.

The bulk of the workers will remain deeply dissatisfied because they will still believe that they are not individually receiving their full share of the benefits of the nation's rapid economic recovery. Should the cost of living continue to rise (see Appendix II), the workers will become more apprehensive lest their standards of living be lowered further rather than raised. Labor leaders could, therefore, be expected to intensify their demands both for wage increases and for a greater share of the national income, particularly by means of shifts in the tax burden and enforced price reductions where profits "permit." Even a substantial increase in money wages, if prices continue to rise, will not satisfy labor. Hence its leaders will call more insistently for major sacrifices by classes (especially entrepreneurs and farm groups) now holding the preponderance of political power.

The accentuation of inequalities and inequities in French living standards, about which the workers complain, has resulted largely from the postwar inflation in France. Because rising wages have lagged well behind price increases, the majority of workers have found themselves able to purchase a smaller

share of available goods than before the war. They have watched some members of their class gain disproportionately by the government's expansion of "indirect wages" or "social benefits": family and transportation allowances; industrial accident, medical, and hospitalization payments; and vacation pay. Meanwhile labor as a whole has watched other classes improve their living standards disproportionately by means of black market operations, price-fixing agreements, changes in taxes and tax methods, direct access to the sources of food supplies, and opportunities for large profits during the period of rising prices.

A comparison of the indexes of living costs and income for the laboring class as a whole is misleading. In January 1950, the cost-of-living index and the average weekly income of workers (including social benefits) were both roughly 17 times greater than they had been in 1938. A breakdown of laboring class incomes, however, reveals glaring disparities. The total of weekly payments to some provincial workers with five children was 25 times greater than in 1938, while most Parisian workers without dependents received average total payments only 10 times greater. Most workers complain, moreover, that social benefits paid in services and not in cash (e.g., medical care and hospitalization) cannot be applied to the purchase of such essential budget items as food, clothing, and household necessities.

Quite apart from the question of relative income trends, the actual basic wages of a great mass of French workers are so low as to breed despair. More than one-third of the total industrial labor force receives less than 15,000 francs (\$45) per month in basic wages. One-half the total income of unskilled Paris laborers without dependents is spent for food, and for many families with children, food expenditures are estimated to amount to a considerably higher percentage of the budget.

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APPENDIX II

RECENT AND PROSPECTIVE AGGRAVATION OF WORKER DISCONTENT

In the first half of 1949, after persistent and at times rampant inflation following the war, French workers were moderately encouraged by a slow decline of the cost of living. Their fundamental complaints against inequalities and inequities remained, however, and acute hardship persisted in the low-paid categories.

Late in August 1949 a new restlessness appeared among organized labor when retail prices resumed their upward trend. This development was a result both of the severe drought and of an expansion of credit induced by fears of excessive deflation. The workers' reaction to the unfavorable price trend was such that the government promptly took an unusual step over the protests of the powerful farm and industrial blocs; it invited immediate extraordinary imports of scarce goods vital to workers' budgets by reducing many quota restrictions and customs duties.

In mid-September, devaluation intensified the existing labor dissatisfaction, as labor at once anticipated a much more powerful impetus to the continuing price rise. An immediate result was the resignation of the Queuille Government, which had been relatively stable, over labor's demand for a special supplement to the monthly wage. By late November, the leadership of the anti-Communist labor confederation *Force Ouvrière* (FO) felt obliged to call a one-day general strike for the 25th, despite the real risk of Communist exploitation.

At the beginning of 1950, the average cost-of-living index for the Parisian worker with-

out dependents stood 4 percent above September 1949 and 18 percent above September 1948. Meanwhile combined wages and social benefits had not risen appreciably since early September 1948, when a general increase of about 15 percent was permitted. Now labor's discontent was sufficiently acute to drive the Socialists to a long-postponed decision, critical for governmental stability: on 3 February they withdrew from the Third Force coalition over the distribution of another wage supplement, which was under consideration by the Bidault Government for the more needy categories of workers.

A further deepening of labor discontent over the coming months is indicated. During at least the first half of 1950, labor's real income may not rise appreciably, and could even further decline. The initial rise of money wages (see Appendix III, Section 4) following the recent restoration of collective bargaining will be slow, will probably not benefit all classes of workers, and will probably be largely if not completely offset by continued retail price increases. These are already foreshadowed by a 3 percent rise of wholesale prices in January. Inflationary pressures underlying this trend at least for the coming months will include large-scale government investment spending, large-volume credit not subject to ceilings, declining ECA aid, any wage increase paid generally, and especially the strongly-intrenched private restrictions on price behavior. The necessary government efforts to overcome these forces will be politically impracticable for some time to come.

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APPENDIX III

DIRECT EFFECTS OF LABOR'S DISSATISFACTION

1. Growing Unrest of Workers and Their Leaders.

A general intensification of labor's efforts to obtain satisfaction of its demands will stem from: (a) a widespread belief among the workers not only that their burdens are being made heavier but that action cannot be longer delayed; and (b) the CGT's eagerness to exploit this belief.

Labor's determination to act in the months ahead will be conditioned by the return to collective bargaining initiated in February. Under the system of government-controlled wages prevailing over the previous decade, labor could hope to achieve important gains only by a united offensive against government policy. Such an effort was not, however, practicable, chiefly because organized labor, controlling less than half of the workers, is badly split by rival confederations.* In addition, the majority of the workers have been consistently reluctant to abet the CGT's political aims and have lost considerable faith in the ability of their leaders in general to win important economic gains. These factors are, however, no longer decisive handicaps to a stronger stand. As negotiations are undertaken with individual employers or industries, the more aggressive union leaders and the more aggrieved groups of workers are freer to act independently, and non-Communist leaders will no longer be immobilized by fear of the ultimate consequences of unity of action with the CGT in nation-wide strikes.

Labor's will to strike henceforth will be lim-

* Of the total labor force which could be unionized (about 9 million), less than half is controlled by the national confederations. The CGT has nearly twice as many supporters (about 2,300,000) as the combined memberships of its chief rivals: the Socialist-oriented *Force Ouvrière* (FO—probably under 500,000), the Christian Labor Confederation (CFTC—probably over 500,000), and the new conservative Independent Labor Confederation (CTI—about 200,000).

ited by two principal obstacles: its poor financial preparedness; and the fact that the workers are not uniformly aggrieved, in view of the substantial social benefits granted to a sizable number. Strike action will tend to be strengthened, however, insofar as it is now taken in defense of the particular interests of the local workers involved.

In addition, labor will grow more aggressive in the coming months because both the employers and the government will persistently resist liberal concessions to the workers. Management will fight to protect present profit margins,* and to prevent price increases which would jeopardize present or prospective markets. The government will be inclined—somewhat less firmly—to check labor's pressure because labor's influence in the Cabinet has declined, and the anticipated rise in general wage levels must inevitably be extended to the nationalized industries, where any sharp increase in costs would seriously jeopardize the government's financial situation.

The reasons for the CGT's promotion of labor militancy will be: (a) its fundamental motive of seeking to develop labor's discontent to the greatest possible extent in order to hasten Communist participation in the government; (b) its determination to reverse the slow decline since 1947 of its prestige among the workers; and especially (c) its Moscow-directed mission in 1950 to impede the development of the NAT by methods of attrition if not by inciting general social strife.

The CGT is well prepared to exert a leading influence, at least in the early stages of labor's 1950 campaign. Of all the confederations, it has the best-trained organizers, the largest funds, probably the greatest strength of purpose, and a persistent reputation as the strongest champion of all labor.

* Although profit margins have not been accurately reported, the ECA Mission to France believes they were "very high" in 1949, "amounting in many cases to 20 to 30 percent of sales."

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Furthermore, the CGT's aggressive stand will tend to draw the non-Communist labor confederations into adopting more militant tactics in order to forestall desertions of their local unions to CGT leadership. Such a trend in non-Communist labor policy has become more likely in view of the growing urgency of the workers' demands and the Socialists' relinquishment of governmental responsibility.

2. Growing Number of Strikes.

Labor's greater aggressiveness will be demonstrated principally by a multiplication of strikes and by intensified pressure on the government in support of bolder demands. The seriousness of the work stoppages will lie in their growing number and breadth of effect on the nation's industrial life. Most will be local, inasmuch as both the CGT and the employers are promoting separate negotiations for each enterprise. A few, however, will be widespread—for example, among metal workers, miners, railroad workers, dockers, and government workers—especially when organized by strong industry-wide non-Communist unions, or by the CGT for political purposes. Both the union treasuries and the workers themselves are, however, ill prepared financially for strikes of unlimited duration. A large number of strikes will be based on urban centers, where union control is stronger, economic grievances are more acute, and the CGT can best carry out its immediate political objectives.

Work stoppages can be expected to continue through most of 1950. A united strike front against government policy being no longer a prerequisite, labor will consider the individual employer or industry a more nearly equal opponent. In addition, particular demands of local groups of workers will tend over a considerable period of time to bring fresh striking forces into labor's struggle with industry.

3. Intensified Political Pressure of Labor on the Government.

Labor's political pressure upon the government is likely to grow during the next few months. Labor will oppose the strong sentiment within the Cabinet both to raise as little as possible the former minimum wage (12,000 francs a month)—a power retained by the

government—and to restrict the right to strike. Union leaders will, moreover, support all possible legislation to undermine industry's strong position, insisting especially that the government shift a greater share of the tax burden to business and take decisive action to force price reductions.

4. Gradual Rise in Money Wages.

Despite industry's strong position for resisting labor's demands, there will be an appreciable rise in money-wage levels in 1950, perhaps amounting to 15–20 percent. Business will probably come to permit this extent of increase in view of: (a) the desirability of breaking the full impact of labor's drive; (b) the undeniable decline in real wages over recent months; and (c) the fact that the government has already found it justifiable to authorize wage supplements amounting to as much as 25 percent for low-paid workers—cost-of-living bonuses which, however, were authorized only twice, in November 1949 and again in February 1950.

The anticipated extent of increase in general money-wage levels, however, will be achieved by labor only after some months of collective bargaining and strikes. Industry will probably be able to limit the rise in wages by exploiting the workers' already existing fears of unemployment, by using the lock-out, and by promoting negotiations on the local rather than regional or national levels. Each industry will strive determinedly to gear the size of its wage adjustments to the increase in its own productivity.

5. Lower Labor Morale.

Labor's morale and hence its productivity may be reasonably expected to decline somewhat in 1950. In general, the fair probability that money-wage increases may for a time be more than offset by price increases (see Appendix II) suggests that the workers will be further disillusioned after their long wait for the restoration of collective bargaining. In particular, the renewed local bargaining directly between employees and employers is likely to have a deeper effect on the workers' personal attitudes toward their jobs than did the previous negotiations between national labor confederations and the government.

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ENCLOSURE A

DISSENT BY THE INTELLIGENCE ORGANIZATION, DEPARTMENT OF STATE

The Intelligence Organization of the Department of State dissents from ORE 100-49 because it disagrees with the conclusion that "French labor discontent" will have "seriously adverse consequences for the U.S." in 1950 by reducing France's contribution to ERP and MDAP and preventing France from maintaining a position of leadership in Western Europe. The Intelligence Organization appreciates the seriousness of French labor unrest as a factor limiting France's potential, but believes that the conclusions of ORE 100-49 are not supported by the available evidence.

On the contrary, the Intelligence Organization of the Department of State believes that:

a) wage increases will be less than indicated in this paper, while there will be some increase

in real wages; with consequent diminution in labor unrest;

b) there will be strikes, but present evidence indicates that there will not be extensive or lengthy strikes such as to have serious economic consequences;

c) there are many reasons for thinking that inflationary pressures are sharply diminishing, and that the deleterious consequences of inflation indicated in this paper are unreal;

d) even were the worst anticipations of this paper correct, France's planned contribution to MDAP would not be seriously affected, partly because the French government could easily control the fraction of French production concerned, partly because MDAP plans have discounted some of the possibly adverse conditions.

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ENCLOSURE B

DISSENT BY THE DEPARTMENT OF THE ARMY

The Office of the Assistant Chief of Staff, G-2, Department of the Army, dissents in ORE 100-49 for the following reasons:

1. ORE 100-49 "French Labor Unrest in 1950 and Its Implications for the Attainment of U.S. Objectives in Western Europe", is based solely on the assumption of a deteriorating labor situation in 1950 with no credence given to the fact that:

a. A portion of labor's demands may possibly be attained through collective bargaining agreements and additional cost-of-living bonuses in individual local or national industries, ameliorating labor unrest to a certain extent.

b. ERP and OEEC 1948 and 1949 goals were in the main achieved in spite of CGT directed *major* strikes, rotating strikes and periodic work stoppages.

c. Though 80% of French labor is still underpaid, the over-all situation is better than during the period 1947-1949.

d. Basic unrest exists neither as a new factor on the French scene nor as a more serious threat to French stability and United States security in 1950 than in 1947, 1948 and 1949.

2. The conclusions are overdrawn and in some instances contradictory especially with respect to . . . "seriously adverse consequences . . ." in contrast to the milder terminology of the report summary.

3. Even if French labor unrest should reach the proportions predicted in ORE 100-49, G-2 does not believe that the facts presented warrant the conclusion that such anticipated unrest would have "seriously adverse consequences" for U.S. security.

4. ORE 100-49 concludes that labor unrest will seriously affect France's contribution toward MDAP goals during its first year of operation. It is flatly stated that wage in-

creases (which it is assumed will be granted in order to satisfy increased demands of French industrial workers), "will make it more difficult to increase the volume of direct defense expenditures". The expected wage increases, it is claimed, will produce a "tight" budgetary situation.

G-2 believes these statements to be fundamentally incorrect for the following reasons:

a. In the first place the size of the anticipated French wage increases will probably not exceed 5 to 10% instead of the 15-20% forecast in the study. In any case, it is believed that the maximum probable increase, if any, in the general price level, as a result of such increases and other contributory factors, would not exceed 5%. Moreover, only a *part* of any possible additional wage bill would be paid from (and thus directly affect) public funds and the budgetary situation. Furthermore, to the extent that additional funds might be required for the payment of wage increases to civil service and other government functionaries (at the most 2 million out of a 20 million labor force) there are available a number of fiscal measures — taxation, increased borrowing, etc. — which the French government could and presumably would, take before its budgetary position were actually threatened. But above all, it should be emphasized that French military expenditures are carefully predetermined and estimated long in advance as a result of current Indo-China operations, as an extraordinary factor, and normal fiscal planning practices as another. Certainly at least through 1950 such relatively fixed military expenditures as those envisaged under MDAP cannot conceivably be threatened by such extraordinary budgetary considerations as those posted in the study.

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ENCLOSURE C

DISSENT OF THE OFFICE OF NAVAL INTELLIGENCE

The Office of Naval Intelligence dissents from ORE 100-49 for the following reasons:

(a) Paragraph one of the Discussion estimates that French labor unrest in 1950 will have seriously adverse consequences for the US. ONI believes that this overstates the effects of French labor unrest as well as their relationship to the US.

(b) Paragraph four of the Discussion presages five effects of labor unrest which point to a steady deterioration of the situation in 1950. This steady deterioration seems to rest upon anticipation rather than proof. It also presupposes that a dynamic element of power has been introduced into the French labor scene unaccompanied by (1) a desperate

plight of labor, (2) a labor leadership that has strength and unity of purpose and organization, and (3) a government lacking power for counter-measures.

(c) ONI believes that because France as a whole has not satisfactorily solved her basic economic and political problems, there will continue to be, as in the past, a latency of labor unrest that flares up periodically or responds, often sectionally, to Communist maneuvering. When studied in relationship to past labor developments, this unrest assumes a continuity that does not appear in ORE 100-49, where it is introduced as a relatively new deterrent to France's attainment of post war goals.

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