

11-8475

16 October 1959

Noted by DD/I
20 OCT 1959

MEMORANDUM FOR: Director of Central Intelligence

THROUGH: Deputy Director/Intelligence

SUBJECT: Proposal to Study the Possible Applicability of Co-Determination
(Mitbestimmungsrecht) to American Industrial Organization

1. The purpose of this memorandum is to suggest that the West German system of industrial labor-management relations known as Co-Determination (Mitbestimmungsrecht) deserves study as of possible relevance to the American economy. Although this is presented as my personal suggestion, it grows out of nearly four years consideration by SRS of its basic charter concern - International Communism and "means of countering it."

2. The steel strike and the Khrushchev visit have sharply challenged the comfortable assumption that the American pattern of labor management relations - free bargaining plus Taft-Hartley - is the "best of all possible" systems. Indeed, Khrushchev's bland exegesis of "we will bury you," coupled with his consummate insulting of our labor union leaders as "lackeys of capitalism," has perhaps been the chief contribution of his visit toward focussing our somewhat blurred economic perspective. His slightly patronizing treatment of our leading "capitalists" - recently reinforced by some shrewd twitting from his son-in-law Adzhubei - may also have helped to lay the groundwork for an overdue reappraisal of the fundamentals of our system.

3. To one who has formed the professional habit of looking at Communist positions "through Communist eyes," a major problem before us now is how to cope with this modern phase of "class" conflict which labor-management relations appears to be entering. On the one hand, as the "affluent society" emerges, labor displays increasing satisfaction with its "bourgeois" benefits, coupled with vague apprehension over its future in an age of automation. On the other hand, management, which more and more wields "power without property," is alarmed over the problems of inflation and of competitive challenges from abroad. It is seeking to adjust its traditional responsibilities to stockholders with its newer obligations to insure the security of workers and the interests of the consumers. In Communist terms, these divergent aspirations and

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responsibilities are tending to assume the proportions of "contradictions." So far in our society these have not become explicitly "antagonistic" but there is no assurance that they will not do so if a "dialectical" resolution is not speedily provided. It is with some such thought in mind perhaps that Walter Lippman observes:

"We are demonstrating to the world our failure to grasp the hard realities of a deep evil in our society, and to deal with these realities lucidly and firmly." (15 October 1959).

Lippman goes on to urge upon Congress a "fundamental decision of national policy" in the "paramount national interest," which he believes should take the form of establishing the "power to require compulsory arbitration."

4. Although some such step may be advisable, I venture to suggest that Co-Determination would be a more attractive alternative. It is a system which has been tested in action over ten years in a highly industrialized economy, in many ways similar to our own. It has preserved the principle of private ownership and of management responsibility for the essential points of production policy, while admitting labor on a basis of equality in the handling of those issues in which it is vitally concerned, especially wages and working conditions. It may be objected that this system would not work in the United States because of differing conditions and traditions, especially the paternalism of German employers, the relatively docile nature of German labor, and the close ties between the unions and the SPD. But the fact is that our own conditions are changing, and we have not yet found the solution to our problems within our traditional patterns. Co-Determination, in the light of the German experience, seems to offer a workable formula to preserve the virtues and abate some of the strains of "free enterprise," the "affluent society" and the "welfare state." It is not a form of "socialism."

5. Any attempt to introduce Co-Determination in the US would of course require careful study and preparation. Initially, at least, it would be best to limit it to those industries in which a collapse of existing bargaining procedures and the inadequacies of the Taft-Hartley mechanism would expose the economy to a major crisis. In this connection, it might be noted that Co-Determination in Germany, which is imposed by law, applies only to the coal and steel industries.

[REDACTED]

6. One of the difficulties I have encountered in studying Co-Determination is the apparent lack of readily available accounts of how it actually works, its strong and weak points. It occurs to me that, with your own background of interest in the German economy, and with the resources of OCI and DDP/EE, it might be possible to obtain a thorough evaluation of the system, with a view to considering its applicability in this country. If the results were at all positive, it might be possible to explore the matter with Congressional leaders, with the Secretary of Labor, and perhaps with Dr. George Taylor and the members of his board. Another approach might be through Mr. McCloy, under whose regime as High Commissioner the system was launched. Finally, it might be possible to discuss it with some of the national labor leaders here in Washington.

7. It is possible if not probable that the current steel strike will be settled in the very near future. Nevertheless, as Lippman has pointed out, critical tensions have arisen which indicate the existence of a major problem for this nation. These will not disappear with the immediate settlement. If we are to meet the long range challenge of Communism, it must be on the basis of fundamental harmony between all the productive forces of our economy. Any avenue which gives promise of leading toward such harmony must be pursued until it is shown to be without issue.

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Chief, SRS/DDI

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