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WAGES, PRICES
AND THE
NATIONAL WELFARE

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INSTITUTE OF INDUSTRIAL RELATIONS
University of California (B & LA)

Wages, Prices and the National Welfare

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A conference conducted on the
Berkeley and Los Angeles campuses of the
University of California

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FOREWORD

WAGES *are often described as the keystone of the collective bargaining contract, and prices as the regulator of economic activity. It is not surprising, therefore, that the relationship between wages and prices is perhaps the most crucial link in the chain of economic values which determines how resources are utilized, what goods and services are produced, and how the incomes generated in the productive process are distributed. Conflicts regarding the wage-price relationship have been almost continuous since the end of hostilities in 1945, and contributed greatly to the unprecedented severity of industrial disputes in 1945–46.*

Whether wage increases have caused price increases, or vice versa, is a question reminiscent of the chicken-and-egg controversy which will never be answered to the satisfaction of everyone. The Conference on Wages, Prices, and the Public Welfare was arranged not in the hope that this question could be settled, but rather in the belief that better understanding of wage and price determination (and of related phenomena such as profits, productivity, consumption and investment) is essential for the maintenance of prosperity and the encouragement of progress in a free society. The six addresses delivered at the Conference by leading spokesmen of industry and labor and by two of the nation's foremost economists are published herein.

Dr. E. T. Grether, Dean of the School of Business Administration, and Dr. Harry R. Wellman, Director of the Giannini Foundation, served as chairmen of the meetings on the Berkeley campus. Dr. Clarence A. Dykstra, Provost of the University of California at Los Angeles, and Dr. Abbott Kaplan of the Institute of Industrial Relations, were chairmen of the Los Angeles meetings.

An important part of the Institute's program is to bring to the community the viewpoints of management and labor, and of impartial persons with wide experience in the field of industrial relations, through conferences of this kind. Other conferences have dealt with Industrial Disputes and the Public Interest and with Industrial Relations in World Affairs.

CLARK KERR, Director
Institute of Industrial Relations
Northern Division

EDGAR L. WARREN, Director
Institute of Industrial Relations
Southern Division

Perspectives on the Wage-Price Problem

By ALVIN H. HANSEN*

I

SURROUNDED by a babel of discordant voices, we can at least do no harm if we back off a bit from the arena of current conflict in order to get a little historical perspective of wage-price relationships.

Consider the period 1840–1914. What is the record of wage-price relationships in this 75-year period?

One thing we discover at once is that wages *can* rise (despite violent assertions often heard to the contrary) without any increase in prices. Wholesale prices stood in 1910–14 at the same level as in 1840–60. But by 1914 weekly wages per employed worker had risen to a level 2½ times higher than that of 1840.

How was this possible? How could wages rise without an increase in prices? The answer is to be found in the increase in productivity per worker. Money wages (and indeed money incomes in general) rose in roughly the same proportion as the increase in productivity. More and more goods could be purchased with rising money wages as the output per worker increased. But the general level of prices was no higher in 1914 than in 1840.

There is a strange inconsistency in the arguments one often hears advanced in the wage-price controversy. On the one side it is said that wage increases must result in price increases; on the other side it is said that the enterprise system has raised real wages and the standard of living. But the latter could not happen if every wage increase were fully matched by price increases.

The historic increase in productivity per employed worker does not necessarily mean *harder* work. The work week was much shorter in 1914 than in 1840; yet output per man-week was much higher. There was less heavy manual labor, less sheer physical exhaustion. What had happened was a change in the methods of work—new techniques, more machinery, more invested capital per worker, improved organization and plant lay-out.

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Now the gains of progress could have been realized in one of two ways: either in rising money wages with constant prices, or else in constant wages with ever lower prices. As it worked out in the free market of the 19th century, wages in fact rose decade after decade while prices were no higher in 1914 than in 1840.

The wage-price adjustment is now less subject to free market forces. Voluntary collective bargaining and government mediation intervene more and more in the wage-price adjustment process. And now that this is so, we can do no better, I think, than to follow the broad pattern of the period 1840–1914. We should aim to translate the gains of progress into higher money wages and rising per capita money incomes in general.

This method of adjustment throws the gains of progress to the *active* groups in the community. The *passive* groups merely hold their own. This is as it should be. By "active groups" I mean wage and salaried workers, farmers, business and professional people. By "passive groups" I mean bond holders, mortgage holders; the so-called *"rentier"* classes. If wages and other "active" money incomes rise along with gains in productivity (prices remaining roughly constant) then the gains of progress accrue to the active elements in our society. The fixed income classes would in these circumstances continue to receive merely a *constant* purchasing power income.

There are several reasons why it is better to take out the gains of progress in rising *money* incomes per worker rather than in lower prices.

First, the reward for increased efficiency should go, in some measure at least, directly to those actively participating in production. Under a piece-rate system, higher productivity automatically yields higher money earnings. True, when new techniques are introduced, new piece rates will likely be set. But unless they yield higher weekly earnings, incentive is lost. So also with hourly rates. Motivation requires that some of the gains in productivity be passed on to the workers directly involved.

Secondly, there is no assurance, especially under modern conditions, that increases in productivity will quickly be passed on to consumers in lower prices. There are too many monopolistic and quasi-monopolistic factors in the situation. On the other hand, in the institution of collective bargaining we have a device through which increases in productivity can readily be transmitted into higher wages.

Thirdly, if money incomes rise as rapidly as productivity increases, the ratio of debt (both public and private) to total national income continually falls. The dead hand of the past thus loses its hold on the present. The burden of debt falls away. Bond holders and mortgage holders "stay put," so to speak. Active enterprisers, owners of equities, and wage and salaried workers capture the gains of progress. As the national income rises, tax revenues rise more rapidly than national income even when tax rates remain fixed. Thus the fiscal problems of government are eased when the national income rises side by side with gains in productivity.

Fourthly, international equilibrium can better be maintained when technical progress is transferred into higher wages. Labor costs between countries are kept in line, even though technological progress occurs at varying rates in different parts of the trading world. If, however, money wages were held constant, and the gains of differential rates of progress translated into lower prices, a serious distortion would quickly develop in the international cost-price structure.

Finally, the savings-investment problem is eased if money incomes rise with increasing productivity. Consider the opposite process—constant money income and falling prices. Under this situation, depreciation funds can, with ever lower prices, buy more and more productive equipment, leaving little or no outlet for net saving. If the gains of progress are taken out in lower prices, depreciation reserves (and so gross savings) will tend to be excessive in relation to investment outlets. This situation, I believe, contributed to the depression of the 1930's.

Thus, there are good reasons why the 19th-century process—rising wages at stable prices—is a favorable method of adjustment. But now what about the divergent trends in different industries? Some dynamic industries make rapid gains in productivity. Some are stagnant and make no gains. Others are more or less average. If each industry raised wages in accordance with its own productivity experience, we should rapidly reach a seriously distorted wage structure. This will not do.

Therefore, the highly progressive industries, while raising wages perhaps a little more than the average over-all increase in productivity in the economy as a whole, should pass on the *exceptional* gains of technical progress to consumers in lower prices. This has in fact been done, historically, by new and rapidly improving industries such as the automobile and electrical appliance industries. On the other hand, the industries which prove incapable of increasing productivity will be compelled to raise wages more or less in line with the average gains in productivity in society as a whole. Wage increases in these stagnant industries will require price increases. Industries with average gains in productivity can raise wages, while holding prices constant. Accordingly, all industries will raise wages more or less according to the general over-all gain in per worker productivity; but prices in the progressive industries will fall, prices in the stagnant industries will rise, while in the *average* industries prices will tend to be stable. The divergent price movements as between industries will thus reflect the uneven rate of technological progress in different branches of the economy.

II

So much for the period 1840–1914. Consider now the experience in World War I in comparison with our current experience. From 1914 to 1920 wages and prices rose rapidly, and roughly in the same proportion. It was a wage and price inflation. There was no gain in productivity. Prices and wages thus rose together.

Then, two years after the war, something quite remarkable happened. For seven years, 1920 to 1926 inclusive, productivity per worker increased 50 per cent, or about 7 per cent per annum. In consequence prices fell in relation to money wages; there occurred a large gain in the purchasing power of wages. But money wages remained at the wartime peak and soon rose above it. Thus the 1920–26 gain in productivity, great as it was, fell far short of the rise in money wages above the 1914 level. By 1926, wage costs per unit of output stood about 40 to 50 per cent above 1914. It could therefore be expected that wholesale prices would settle at around 40 to 50 per cent above the prewar price level. Thus we moved along in the 'Twenties on a new high-price plateau for the very basic and fundamental reason that we were on a new level of labor-cost. Wages in relation to productivity form a pivot around which the price system oscillates. Prices were above prewar levels because wages had risen more than productivity.

Nevertheless the great gain in productivity after 1920 placed wages far above the price level. Thus money wages could buy more in goods and services than in 1914. The standard of living had gone up; real wages had risen far above the prewar level.

To sum up: There was no increase in productivity per worker from 1914 to 1920. Hence prices and wages rose together. From 1920 to 1926, productivity increased rapidly; hence wages could rise even higher, despite a substantial fall in prices below the wartime peak.

The unfolding of events, with respect to wages and prices, in World War II turns out to be partly similar, partly different from that experienced in World War I. The wage and price inflation was less rapid during the war years, but more rapid in the aftermath. Wages and prices have risen roughly together in about the same proportion. Since 1941 there has been no increase in per-worker productivity. Considerable distortion has appeared in the wage structure. Wages in manufacturing and mining industries have increased more than in railroads and public utilities, and much more than among the white collar workers.

Full employment has brought a remarkable gain in real income compared with 1939. In 1947 *per capita* real income was more than 40 per cent above that of the prewar period. This is mainly due, not to increased productivity, but to full employment and full-capacity operation of plant. The American people as a whole are enjoying currently a far higher standard of living than ever before in history.

III

How does one account for the recent inflation of wages and prices? As everyone knows, the war inflation (held down by rationing, allocation and price controls) was caused by the vast war expenditures of the government. But what about the postwar inflation, Was it caused by wage increases; or were wage demands incited by the rising cost of living, especially rising food prices?

The postwar inflation following June, 1946, can be chiefly attributed to two fundamental factors: (1) the world-wide scarcity of food, and (2) the over-all excess of aggregate demand in relation to the available supply of commodities. It should moreover be noted that during much of the reconversion period, income payments were swelling the stream of purchasing power while there was no corresponding outpouring of finished goods—only the "pipe lines" were being filled. This created a condition of temporarily short supply.

The excess of aggregate demand is basically due to an excess of private domestic investment on construction, productive equipment and inventory accumulation, together with the vast net export surplus. Consumption expenditures as a whole are not abnormally high in relation to disposable income. *En masse,* consumers are not spending more than their income—indeed personal savings in 1947 were 6.3 per cent of disposable income, compared with 4.5 per cent in 1929. While the proportion of income spent on food, clothing and other nondurables was in excess of that in 1929, the proportion spent on services was much less.[1] It is true that the income of the farm population is abnormally high, and that farmers are savers. But consumption as a whole is not high in relation to disposable personal income.[2] The excess of demand is not due to an excess of consumption; it is due mainly to an excess of investment.

The price inflation incident to both these causes—the food crisis and the excess of aggregate demand—would quickly run out were it not transmitted into a cumulative process through wage increases. When prices rise, wage demands can be expected to follow. At the new level of wages, food is again in short supply in relation to demand; at the new high level of consumption expenditures (following wage increases), investment plus consumption again exceeds the available supply of com-

[1] This of course is in no small measure explained by high food prices and low, controlled rents (an important component of the "services" category).

[2] If food prices fall, farmers will save less, but the urban population will probably save more.

modities. The inflation is not in the first instance due to wage increases. But it is through the *ensuing* wage increases that the inflation is pushed up another notch—the familiar price spiral.

If on top of a normal aggregate consumption, investment exceeds current savings,[3] then an inflationary process begins which has the effect of raising profits and depressing the ratio of consumption to gross national product. With rising business profits gross savings increase. It is the process of inflation itself which creates the savings required to finance the excess of investment, these savings taking in large part the form of business profits. Inflation and large business profits necessarily go together. Under these circumstances, higher wages will not cut profits; they will only feed the inflation.

IV

The forces currently making for inflation will sooner or later exhaust themselves. Western Europe's food production last year was about 20 per cent below normal. It can and will be restored. We shall again witness agricultural and food surpluses, though perhaps only moderate ones. The current excess of investment cannot for long continue. In 1947 we expended $24 billion on productive equipment, including business plant and equipment. We expended $18 billion on equipment (machinery, etc.) alone, plant excluded. This cannot continue. The excess of aggregate demand will sooner or later spend itself. It may already be softening. But this tentative conclusion would have to be modified if the military budget is vastly expanded. On a quasi-war footing we could have strong inflationary pressures for 20 years.

So long as these pressures persist, there can be no escape from price increases unless we introduce a minimum program of control—rationing of foods in short supply (with price ceilings), and allocation and inventory controls of scarce materials.

In 1944 I urged the continuation of the excess profits tax on a modified basis during the reconversion period.[4] It was, I believe, a mistake to repeal this tax. There followed the irresponsible abandonment of controls in July, 1946. It was a foregone conclusion that the sharp increase in food prices would lead to a round of wage increases. It was this that set off the price-wage spiral.[5]

[3] This means here the savings that would be made under a stable price level.

[4] It is true, as explained above, that large profits increase the flow of current savings and in that respect are anti-inflationary. But also a large government surplus, increased by an excess profits tax, is no less anti-inflationary, and moreover does not suffer from the fatal weakness of excessive profits, namely, the provoking of inflationary wage demands.

[5] It may be noted that average hourly earnings in manufacturing stood at $1.08 in June, 1946 compared with $1.02 in 1945, while the index of food prices stood at 146 in

From hereon, if we are lucky, we may experience substantial price stability; partly through a softening of the inflationary pressures or perhaps through the re-introduction of limited controls for essential materials in short supply. Two factors on the production side may contribute greatly toward weakening the inflationary pressure: (1) the outlook for an improved world food situation; and (2) the prospective increase in per-worker productivity.

The next five or six years may witness a vast increase in productivity. This would permit a considerable advance in money wages without price increases. Should this happen, it would be a repetition of the events of 1920–26. Just as in World War I, we have now had several years with no increases in productivity; 1914–19 then, and 1941–47 now. But in 1919 and 1920 there was a prodigious installation of new and improved machinery and other productive facilities. So again now. Equipment investment has now been running at an unprecedented level for more than two years. It is hard to believe that this vast installation of improved machinery will not soon bear fruit in increased output per worker. The next few years may well witness a vast upsurge of productivity. If this occurs, substantial wage increases will not be inflationary. Indeed such increases would be necessary to sustain purchasing power and continued high employment.

A renewal of vast military expenditures on a huge scale would change the picture. To keep inflationary pressures within bounds, the recent tax reduction should be rescinded and in addition an excess profits tax should be imposed. On a quasi-war basis, controls of materials in short supply would become urgently necessary.

And now a word about the aftermath of the inflation we have had thus far. After World War I we settled down to a new wholesale price level around 40–50 per cent above that of 1914.[6] We held this for nearly a decade and then suffered the disastrous deflation beginning in 1929. We may this time settle down to a new price level, again around 40 per cent or so above that of the 'Twenties. Does this spell an inevitable future deflation?

It is often said that "what goes up must come down." This is partly true and partly false. We must distinguish between: (1) price adjustment, and (2) a deflation of the wage-cost structure. Some price adjustment there should be. Agricultural and food prices, hides and leather products and building materials are far out of line with the general price structure.

1946 compared with 139 in 1945. With the removal of controls, the record of substantial wage and price stability quickly vanished. Food prices shot up and wage demands followed.

[6] The consumers price index at retail was substantially higher, since it was affected by the increased cost of housing and other services.

A price readjustment in these areas, especially in agricultural and food prices, should give us a far better balance than we have today. But there should be no deflation of the wage structure, no general crumbling of the whole cost-price structure such as is involved in true deflation. We should hold tenaciously to the wage level we have achieved; indeed we can look forward to wage increases commensurate with the future increases in productivity which our rapidly improving technology should make possible. This would give us a further substantial increase in our standard of living over and above the great gain already made by reason of the full utilization of our productive resources.

V

I conclude with a brief summary statement of the current situation:

1. There are two basic causes of continuing inflationary pressures in the U. S. They are the world-wide shortage of food and the excess of investment outlays over current savings. Of these the most important is the shortage of food.

2. The excess of aggregate demand over available supply is transmitted into a cumulative process through the wage-price spiral.

3. Both sources of inflation are temporary, and tend sooner or later to spend their force. Agricultural surpluses will some day be upon us; the larger the capital outlays, the sooner are investment-outlets exhausted. But who can draw up the time table?

4. The removal of controls in July 1946 led to wage advances that have placed us on a new and rising level of labor cost. Sharp increases in food prices and large business profits incited demands for higher wages, as could be expected.

5. Historical experience does not justify the belief that one-sided measures can control inflationary pressures. What is needed is a many-sided program designed especially to strengthen voluntary self-restraint on the part of management and labor. Without this, there is no escape from the wage-price spiral. No one group can be expected to exercise self-restraint if there is no over-all program. A minimum program calls for selective rationing and allocation of commodities in short supply, an excess profits tax, stand-by machinery for investigating unjustifiable price increases in strategic areas such as steel, the largest possible budgetary surplus, an intensive campaign to sell savings bonds, and restriction of consumer and real estate credit.

6. Moderation and self-restraint are essential for the survival of a free democratic society. But this suggests the willingness to use limited controls when emergency conditions require such measures, and the capacity to use them sparingly at strategic points in the economy.

Labor's View on Wage-Price Relations: I

By STANLEY H. RUTTENBERG*

THE ULTIMATE objective which we all desire to attain is maximum employment, production, and purchasing power. The wage-price relationship is only the tool used to achieve our objective.

I should like first to discuss the wage-price, and if I may, the wage-price-profit relationship and then show how this tool can and should be used to attain our ultimate objective.

The movement of wages and prices in the past two years has not been in the interest of our national welfare mainly because prices have risen all out of proportion to what they should have. In a full employment economy the real earnings of American workers must be continually on the increase. This means that prices must remain as stable as a proper determination of costs permits. Unnecessary price increases bring on inflation and the many other distortions which lie in the wake of a boom and bust cycle.

It might appear that the labor movement is trying to reap all the benefits of an expanding economy by demanding wage increases and insisting that prices remain relatively stationary. Traditionally we here in America, over a great many years, have striven to improve the living standards of our people. This country of ours has been famous for its ability to improve the real earning power of American workers. We should be shocked into action by the trends of the past two years, during which time the living standards of the American people have steadily declined as prices have outrun wages.

I repeat my major thesis. It is in the interest of our national welfare that the real income of American workers be on the increase. This can be accomplished through raising wages without raising prices and still permit industry to obtain a sufficiently high enough level of profits to modernize plants, promote expansion and encourage venture capital. For example, let us review the period 1923 through 1941. 1923 was the year after the 1921–22 collapse and a fairly typical year of the mid-'twenties. 1941 was the year before America entered into full-scale war. This period of 1923–41 included the worst economic depression in Amer-

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ican history. Yet, over this period of almost two decades, wages increased, prices fell and profits after taxes rose. Average hourly earnings of workers in manufacturing industries increased by 20 cents an hour or almost 40 per cent. Wholesale prices of finished manufactured products dropped by 10 per cent. In spite of this decline in prices, corporate profits after taxes increased by over 80 per cent. Increased production—up 95 per cent during this same period—suggests the main reason we were able to accomplish what we did.

Here we see over this two-decade period a movement of increasing wages, declining prices and rising profits. It took a long depression to help bring about this movement, but the fact that wages can go up and prices can come down and profits still go on to new highs is indicative of the kind of economic development in American life for which we should all strive.

The movement of wages and prices subsequent to 1941 has been in the opposite direction. In the past six-year period since 1941 wages and prices have both moved upward and so have profits. Certainly, these two periods are not strictly comparable for many reasons. However, I simply want to draw attention to the healthy development of the first period and the extremely unhealthy development of the past six years. Prices should not have moved upward so steeply. I fervently hope and pray that it will not take another depression to accomplish the objective of improved real earnings.

There has been only a small improvement in real earnings since the prewar period. Certainly, since the end of the war there has been a decline in real earnings which has meant depressed living standards. Many people have drawn upon savings and have gone further into debt in an effort to reëstablish the position they were able to attain during the war.

The basic objective of the American trade-union movement has been to ever increase the living standards of the workers and their families. In 1944 and 1945 manufacturing workers attained their highest level of income in terms of weekly earnings. The labor movement is now striving to recapture that level of money and real earnings. In January 1945 the average of weekly earnings in manufacturing industries was $47.50. With prices up 30 per cent and money earnings up only 10 per cent, no family of four can properly maintain itself at a decent American standard of living. Because even the real earning level of January 1945 is not sufficient. We shall strive further to increase the level of money and real income even above that peak level of 1944–45. We feel this is in the long run in the interest of our national welfare. We do this because we firmly believe that a high-consumption economy with maximum purchasing power is essential to promote full employment and full production in America.

Yet there are those critics of the labor movement who point out that there has been a 20 to 25 per cent increase in real earnings of workers in manufacturing industries since 1939 and argue that therefore the labor movement must not pursue its policy of further wage increases. I should like to point out in this connection that 1939 was a year in which some eight to ten million workers were unemployed; a year in which we were producing one third less than at present; a year in which the average hourly earnings of workers in manufacturing industries was 63 cents or $23.86 a week. Those who make comparisons to the prewar year of 1939 believe simply in "moving forward by moving backward." They sometimes agree that the ultimate objective is improved living standards and high real earnings, yet they think in terms of improvements over the levels of 1939 when our economy was stumbling along with considerable unemployment and exceedingly low levels of production and earnings.

On the other hand, the basic approach to the development of a high consumption economy should be the desire to move forward, with faith in America's future, to improve living standards and to produce for our basic needs. Unless we start with this objective in mind, we shall not be able to attain the high-level consumption economy essential to the continual promotion of the objectives of maximum employment, production and purchasing power.

The wage-price-profit mechanism is, as I have already said, one of the tools used to achieve our ultimate objective. In order to achieve our long-run objective, we must have all-out production. This means greater available capacity than now exists in many industries. We must have a greater availability of products at lower prices for the mass of our American people to buy and consume. We must also have a greater share of the profit dollar going to the mass of American consumers.

Now the prime problem is the timing and the means of accomplishing our objective.

I shall first address myself to the means of achieving a redistribution of the profit dollar. The machinery of collective bargaining and wage negotiations can and must play a great part. Not all the people in America, as yet, are organized into trade-union groups through which they could take advantage of collective bargaining. However, this is no justification for the argument advanced by some that it is only the better organized workers or the workers in the mass production industries who have benefited from collective bargaining. During the first and second round of wage increases in 1946 and 1947 it was the well-organized worker who benefited first. But as he benefited, the wages in unorganized industries, in trades and services and in professions moved upward in about the same proportion. For example, between June 1946, just after the first round of wage increases, and the end of 1947, after the second round, the increase in average straight-time hourly earnings for all workers in manufacturing industries was 17 cents. The organized workers in the auto, steel, and electrical equipment industries had increases of between 17 cents and 18½ cents. Yet straight-time hourly earnings of workers in industries not nearly as highly organized as autos, steel, and electrical equipment also moved upward about the same extent. For example, in the food processing industry, the increase in average straight-time hourly earnings amounted to 19 cents; in wholesale trades, 18 cents; in retail trades, 15½ cents; in lumber, 15 cents; in furniture 17½ cents; in tobacco, 12 cents. It cannot be argued that the workers in the mass production industries or highly organized industries were the only ones who benefited through wage increases derived through collective bargaining.

Of course there are some groups of fixed income individuals and some white collar groups whose earnings might not have moved up in line with the increases in these other fields. The remedy to this situation rests, not with denying wage increases to workers in organized and unorganized fields, but in federal legislation to increase the minimum wage to 75 cents and eventually to $1.00 an hour; to improve social security benefits and to increase the wages of federal, state, county, and municipal workers.

If one firmly believes in the objective of improving living standards and developing a high-consumption economy, one must see to it that the area of collective bargaining is extended and that trade-union organizations are strengthened in our American life; so that all individuals, be they white collar workers, teachers, federal or state employees or other fixed income persons, can derive the benefits of improved living standards. Legislation such as the Taft-Hartley Act narrows the area of collective bargaining and makes it more difficult for workers, organized and unorganized, to improve their earnings and working conditions through collective bargaining.

As for the timing of wage increases and the improvement of living standards, I think that now is the time to raise the real income of the mass of American consumers.

There are those who argue that further wage increases mean more inflation. Increased wages as such are not inflationary. Increased wages do not necessarily require that prices be increased. Wages can be increased by reducing profit margins.

The reasons prices have moved upward following each increase in wages can be attributed, first, to industry's insistence upon getting as much as it can while the getting is good. For example, Mr. Irving S. Olds, Chairman of the Board of United States Steel, in his annual report for 1946 said:

> Operations are at an all time high. Profits should be sufficient to enable a fair return to be paid to the owners of the business in the form of dividends and also to permit an adequate amount to be set aside for future needs since the day will come when steel operations are at a lower rate than at the present time.

It is clear from this quote that safeguards are being taken against the depression which they consider will come inevitably.

Second, prices are set up on the basis of industry's costs of production, costs at low production levels instead of at current levels of production. If industry after industry computes costs upon low production levels the costs will be much higher, and within that framework of thinking and figuring, prices will be higher.

It is essential for the future well-being of our economy that the establishment of prices be based upon current levels of production and not upon low production levels or even upon levels of production between these two areas.

Wage increases are inflationary when they add to the income stream while there is insufficient production or improper distribution of available supply. Rather than reducing levels of income, it is essential, for the future well-being of our economy, that scarce commodities be equitably rationed and allocated.

It is with this thought in mind that the CIO, at its Executive Board meeting in January, issued the following statement:

> The CIO proposes in the coming months to be actively fighting for substantial wage increases through collective bargaining and for the passage of an effective anti-inflation program through Congress.... Only through such an anti-inflation program can our new levels of wages be protected from another onslaught brought on by even further unjustified price increases.

The real wage level of American workers cannot be improved if this practice of unnecessarily increasing prices continues. Improvements in real income and purchasing power are essential to insure the accomplishment and maintenance of the goals of maximum employment, production and purchasing power. We can only improve real wages in periods of rising national income. That is why it is essential that there be wage increases now that are not followed by price rises. In this way purchasing power can be built up that will tend to stabilize our economy and avert a possible economic collapse.

So much for the wage-price-profit relationship. We must work for the attainment of eventual goals of full employment and full production, goals which spell out the needs of the American people—improved housing, more extensive social welfare, medical and health care for all Americans, free and equal educational opportunity for all Americans. In the field of agriculture we must keep our sights set for high levels of farm output—we must have soil conservation, crop rotation, and other sound farm practices. We must move forward in the hydroelectric field and expand the concept of the Tennessee Valley Authority to other large river channels in America. We must expand the basic capacity of industries like steel, petroleum, coke, electricity, and other industries. This will require, as the President pointed out in his economic report to Congress this year, that, "... business adjust its plans to an economy of continuous maximum production instead of adjusting its plans to an economy of recurrent low resource utilization."

The attainment of high levels of income and purchasing power are contingent upon our ability to ever expand our outlook—to set our sights high and move on to ever-improving living standards by attaining maximum employment, production, and purchasing power.

The Council of Economic Advisers, in its second annual report to the President, made clear the relationship between maximum production and a high-consumption economy. The Council pointed out that:

> If we are to achieve and stabilize maximum production according to any reasonable interpretation of America's capacity to produce, we must in future have much higher consumption in all the lower and middle ranks.... The enlarging production of an industrially efficient nation must go increasingly to filling in the consumption deficiencies of the erstwhile poor.

The President, in his economic report to Congress in January of this year also pointed out:

> For balanced expansion, our economy requires a larger flow of income to consumers.... When the export surplus and business retooling and the use of savings and credit level off or are reduced, we shall need more consumer income to sustain maximum production.

The whole concept of what I'm trying to say today can be summed up in this additional statement contained in the President's economic report:

> We have learned from experience that the capacity to produce does not alone assure continuous maximum employment. The distribution of purchasing power determines whether there will be enough funds available to provide adequate investment for maximum production and enough buying power to absorb the output.

The President, in still another section of his report pointed out the danger to our economy which occurs as a result of wage increases being followed by unnecessary rises in our price structure:

> Price increases operated to hold the purchasing power of consumers at levels which would have been insufficient to permit absorption of the full output had it not been for the extraordinary export surplus, the use of savings and credit at abnormal rates, and the continuance of backlog business demands.

I could no better sum up my position on wage-price-profit relationships and our national welfare than to say:

(1) We must look forward into the future with faith in America's ability to provide a more abundant life for all.

(2) We must establish goals of expanded industrial and agricultural capacity.

(3) We must make available to our people mass products at low prices.

(4) We must create income levels sufficient to enable the establishment of a decent American standard of living.

Unless we attain these objectives, I feel certain that we may have an economic collapse in America from which we may not be able to extricate ourselves, short of drastic measures.

Labor's View on Wage-Price Relations: II

By BORIS SHISHKIN*

THE WAR has proved that America can achieve full production and full employment. The war has also given the American people the promise of lasting full production and full employment in peacetime years. Can that promise still be made good?

The sober truth is that half of that promise has already been forfeited. It was forfeited when, under the sponsorship of the National Association of Manufacturers and the leadership of Senator Robert A. Taft, the reactionary forces in Congress wrecked price control in 1946. It was forfeited by the false promise that lower prices would result from the premature abandonment of controls on prices, on installment buying, on exports, and on other activities. These controls were indispensable for a safe transition from war to peace, from a controlled to a free economy.

This transition could be accomplished with safety only with the aid and guidance of a pilot able to provide the conduct for our economic ship of state around the mines sowed in wartime to the free and open sea of peacetime life.

We dropped the pilot too soon. In the wake of the hurricane of war, we let the ship of our economy be carried along an uncharted course by the tides of unchecked inflation. Today, we are confronted with the question crucial to the whole world: Can the American peacetime economy avoid getting shipwrecked? Can an unguided enterprise system escape a serious recession?

We cannot, unless we clearly recognize and deal with a set of real and specific problems which must be solved and overcome the handicaps we have already assumed.

Here are the specific issues with which we must deal:

First is the issue of full employment and full production. In this connection, the crucial point is not what we are able to do today in comparison with our record before the war but what we should achieve and maintain in comparison with our record at the peak of the war effort.

Since the peak of the war we have experienced a sharp drop in manu-

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facturing—both in production and in employment. We have not yet found the means of assuring a full market for expanding manufacturing production which could be sustained over a period of years.

Our technology, born of war, and yet not fully developed in peacetime will enable us to produce vastly greater amounts of goods and services with proportionately smaller numbers of workers in manufacturing. This is the challenge of technology which will inevitably bring us face to face with the problem of the wage standard related to productivity.

The yardstick of wartime peak production will prove to be too short to give us the full measure of production and employment requirements in order to keep the whole economy at top pace.

Second is the question of prices, again compared with the levels maintained at the time of the maximum full-time production. Price control and rationing at the peak of the war were the necessary and effective curbs on inflation only because a very large share of the productive supply was devoted to war needs and not to the civilian demand.

Until and unless a balance is attained between the supply and demand at a level where the mass production of goods and services of which our economy is now capable can reach the mass requirement of the vast majority of farmers, workers, and self-employed persons, we will not attain a sound basis for stability and will not escape the responsibility for some measure of intervention by the government into the operation of the price system.

Without such intervention in the form of monetary measures, consumer credit and bank credit control, there is no hope for avoiding the turn in the price cycle which will inevitably bring a balance at a depression and not at a prosperity level.

It is clear, therefore, that the most immediate and the most urgent problem confronting us today is still that of inflation. The threat of continuing inflation is the most deadly threat to full production and full employment in the years to come. The question which is in the minds of all is what part in this crisis of inflation is played by wages. It is important to realize fully the effect of wage changes on prices today.

Wages are costs. In each particular operation they usually represent only a fraction of the total cost although sometimes they may comprise a substantial part of the cost of production.

Here again the comparison is crucial between the peak of the war and today. The average worker in manufacturing was earning $5.23 a week more in 1947 than he did in 1944. But to buy the same goods and necessities that one dollar bought in 1944, it took $1.31 in 1947. So that measured in 1944 dollars the average factory worker's weekly pay instead of increasing $5.23, declined to $39.05, a decrease of $7.03, or 15.3%.

In terms of goods and necessities he could buy, the average worker in manufacturing was that much worse off in 1947 as compared with 1944.

In considering this decline in real income since the peak of the war, we have to take into account the fact that wages as costs were paid in the past two years at a time when prices were rising rapidly. In fact they were rising in general far more rapidly than wage rates. Consider the fact, for example, that in May 1947 the labor cost per ton of coal was $1.65 and in November 1947, $1.84, a rise of 19 cents a ton. Allowing in addition for a five cents a ton payment for the welfare fund added since May, the maximum increase in the labor cost per ton of coal was 24 cents. Yet during the same period the wholesale price per ton of mine run coal rose $1.18 while the average retail price in 34 cities rose $2.40 per ton. Here you have a perfect illustration of how a 24-cent increase in the labor cost per ton was universally represented as the direct cause of the price increase which in reality was ten times as great.

There are hundreds of specific examples of inflationary increases in prices in which wages have played no part or a negligible part at best. These increases did not all go into profits. A large part of them was plowed back into the corporate enterprises replacing the investment funds on which the corporations failed to draw. But even at that, per unit profit rose high enough to widen the gap between the purchasing power for the goods to be produced and the production of these goods at the current market price.

Our price mechanism was clearly not geared to the balance wheels of production and consumption but was running at a higher pace than the economy would permit.

In the decade of the 'twenties our productivity increased far more rapidly than the wage income of the workers producing the larger volume of goods.

We are on the verge today of starting our postwar decade with a profound disparity between purchasing power and America's capacity to produce.

Unless the gap is closed and purchasing power is sustained by a series of measures specifically designed to assure the stability of income, there can be and will be no escape from a drastic recession.

It is to avoid this result that labor as well as management must agree to coöperate with the government in maintaining measures essential to preserve the enterprise system from self-destruction.

Industry's View on Wage-Price Relations: I

By JOHN L. LOVETT*

WE, IN INDUSTRY, are accustomed to thinking in terms of man-hours, time studies and production per hour.

You, in the universities, are interested in credit hours. The professional man sells hours. As a matter of fact, the whole world moves on the marketing of time. Our economy is based upon selling somebody's time.

Our natural resources are the result of time. Coal, oil, all of the mineral ores took time—decades and eras.

It takes time to develop an invention. It takes time to learn a profession. It takes time to learn to paint a picture, or play a musical instrument.

All of our skills come from hours of time. One of the speakers on this program, Dr. George W. Taylor, is an industrial relations expert of high standing because he has devoted thousands of hours of time to getting the necessary experience.

The doctor who is a skillful operator has also devoted thousands of hours of time.

In discussing the wage-price relationship and the national welfare, we are dealing primarily and fundamentally with what a man can sell his time for in terms of what goods and services an income from that time will purchase.

A statistical comparison of the number of pieces produced by an American workman per hour, with the production of the workers in the rest of the world, represents the difference in investment in time-saving machinery. That time-saving machinery was purchased by the American investor's savings from the sale of his time in his occupation.

We might take a simple example of what the time sold by an American worker to an American industry will buy in relation to what the time sold by a Russian worker to the Russian Government will buy from the Russian Government in terms of food and clothing. For instance, the Russian worker can buy eight pounds of beef in one week if he uses up everything he earned in that week.

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The American worker can buy eighty pounds of beef with what he earns in one week.

The Russian's weekly wage will get him 15.2 quarts of milk; the American will get 276 quarts.

A Russian will get, for a week's work, 22.5 pounds of bread; the American pay for the same period will buy 394 pounds.

If a Russian wants a bottle of beer, he has to work eight hours to get it; the American works ten minutes. The Russian works 160 hours for a pair of shoes; the American works three. A new coat for Mrs. America may cost 75 hours of labor; in Russia the same coat costs 1,000 hours of labor. A cheap cotton skirt costs $80.00 in Moscow, and many of the things I have mentioned are not obtainable at any price.

So it is obvious that the Russian worker is selling his time for much less than the American worker in terms of what the sale of time will buy.

In England, the wages of the English workers are less than half those of the American worker, and the prices which he must pay for commodities are only ten to twenty per cent less, so that with the sale of the Englishman's time there inevitably come fewer of the necessities and luxuries of life. The same is true in all other countries.

Personally, I have always believed in high wages and high production. I think the two should go together.

But there must be production. From the early industrial history of the country, we know that piece rates were paid by most of the manufacturing plants. Manufacturing was simple in those days and one man usually devoted most of his time to the production of one piece. However, with the additional machinery and mechanical development, manufacturing became more complicated and several men worked on one piece, and several men put pieces together so that the application of piece rates became too complicated to be applied to many industries. So the hourly rate of pay was instituted.

In order that some control over the cost of the parts might be maintained, time studies were introduced and standards set based upon the number of pieces a man working at normal speed could produce in one hour. It is obvious that if the standard is 150 pieces an hour at a wage of $1.50 an hour, then the direct labor cost of that piece is one cent. But suppose the worker only produces 100 per hour. Then the direct labor cost of that piece increases to one and one-half cents per piece.

That represents one of the present day difficulties. If his production follows the normal pattern upon which the hourly rate has been based, then the manufacturer can reach the end of the month, or the year, with a fair knowledge of whether he has lost money or made money. But if the workers, for one reason or another, do not make the standard per hour, and the cost goes up as much as 50 per cent, then it is obvious that at the end of the year he is operating the business at a loss.

This illustrates quite clearly the relationship between wages and prices. The more the manufacturer pays for labor, the more the production must sell for. I don't think I have to argue that question with this group.

I don't believe I have to go into any extended argument with this group as to the effect of high wages and high prices on the national welfare because, as I indicated above, the national welfare, or the national standard of living, is directly dependent upon the relation of prices to income.

If, through restricted output methods, labor forces the price of commodities beyond what he can sell his time for, then the standard of living will drop.

American industry has become great, and the American worker has enjoyed more necessities and luxuries than any other worker in the world because the American manager has installed time-saving machinery.

In other words, if I can invent a machine that will do the work of five men and have it operated with one man, I have increased the productive value of the worker's time and I have lowered the cost of the product.

For the last half century the British labor unions have belligerently and quite successfully opposed the introduction of time-saving machinery, with the result that the cost of British production in man-hours was about three times the cost of comparable American goods in man-hours. Therefore, the British worker, up until the war, received an average of $11.00 per week as compared to about $45.00 per week for the American worker.

Obviously the workers in England were selling their time, in relation to goods which they might buy, at a far lower rate than was the American worker. Therefore, the national standard of living in England and, in fact, in the rest of the world, is much lower than in the United States.

The relation of wages and prices is directly dependent upon production. The manufacturer can raise wages and not raise prices only when the time he pays for results in more production. If at the same time he raises wages, and gets only the same amount of production, then prices must be increased. The percentages of price increase are dependent upon how much wages are a part of the price structure. That varies in different industries. The labor cost of producing grey iron castings is more than the labor cost of oil refining. The difference is represented by the amount of capital invested in machinery. More men are required to produce the same dollar volume of production in a foundry than in an oil refinery.

The investment per worker in an oil refinery is somewhere around $18,000 per worker, while in the grey iron foundry the investment probably does not run more than $2,000 or $3,000 per worker. Therefore, the cost of labor affects the price of castings considerably more than the cost of labor affects the price of gasoline.

These may be two extremes but all the industries fit in somewhere in this scale.

If a manufacturer raises wages, he knows that he will have to increase prices unless his workers produce more per man-hour, or unless he is in a position to furnish the capital to buy time-saving machinery.

If the restricted output theory of unions continues to grow in the United States, and the control of the unions over production becomes more potent, then the standard of living in the United States will drop. The attitude toward production on the part of labor unions and the individual worker will largely determine whether the high standard of living which has prevailed in the United States can be maintained.

There are other elements which affect the national welfare and have a direct bearing upon wages and prices.

The number one burden on prices today is taxes. Taxes are about equal to wages. In some industries, taxes are more than wages, but taxes paid by a business add nothing to the quality of the product and add nothing in the way of increased production, so that this added cost is uncontrollable and must be reflected in the price of the product. Unfortunately, the public—and the worker is a part of the public—is selling so much of its time every day to pay the cost of running the various governments. During that time no goods of value to the public are being produced.

The average business executive today is working from six to ten months per year for the United States Government. All that he may retain out of his earnings amounts to from two to six month's salary. So that this time—this very valuable product which all of us have for sale—is sold to a business but cannot be used for the purchase of goods and services. It must be in turn paid to the United States Government to be used in nonproductive enterprise.

Of course, the cost of insurance, depreciation of machinery, sales expense, and advertising must come out of what this average working man can produce in the time which he sells to the company.

The national welfare, or rather the national standard of living, is directly affected by these indirect charges against the products of the company. If what men produce in the time they have to sell does not go into products for their own use and enjoyment, then the national standard of living must drop.

Thus, there is a very great relationship between wages, prices, and national welfare. The key is greater production per man, per machine, per dollar of capital invested, and lower taxes. It has been argued that wages may be raised without increasing prices. That is a fetish of one of our young labor leaders in Detroit. He knows better, but he thinks it sounds better to the public if he tells them that is what can be done. Of course, he talks a lot about profits. The answer to the profit question is that if a business does not make a profit, it will not live long; and if it does not live long, it is not going to employ many men and is not going to add to the standard of living.

Profits are judged too often by the dollar volume of profit rather than relationship of profits to sales. It is true there are some large volume profits but the sales of those companies are also large. If the profits are not made now, then those companies will have nothing with which to face the future when sales are lower. But the test of a successful business is not how much it makes on its invested capital, but how much it makes on each dollar of sales. If sales drop below the break-even point, there is no return on the investment. If profits on sales drop too far, again there is no return on investment.

We must remember that this country now faces a terrific demand for capital to be invested in manufacturing. A great many of our large industries must spend literally billions for new and more modern machinery and new facilities if they are to keep their costs down to a level at which the average American will enjoy even the present standard of living.

Where is that capital to come from? Heretofore, we have been able to sell stock to persons who had saved money out of their income. Few persons can save money today out of their incomes because of the high cost of government. Taxes make savings almost impossible.

For the last year and a half the insurance companies have been supplying a good deal of capital to industries. That capital comes from the premiums paid on insurance policies by millions of American insurance buyers. However, in the last few months insurance companies have become more or less restrained in investing in industries. That will be a severe handicap to a great many small enterprises.

In conclusion, it is obvious that wages, prices, and the national welfare are all tied up together. It is obvious that higher production must accompany higher wages, or higher prices will drive a part of the buying public from the market. The welfare of that part of the buying public will be lowered.

As a national policy, we should encourage wages commensurate with production, prices based upon the cost of manufactured products, and lower taxes. If we can bring something of a balance into this picture, our standard of living will continue to rise. I believe we can do it. If the American worker will take as much interest in increasing production as he does in asking for increased wages, our problems will not be too difficult to solve.

But the difficulty with all our national problems lies in the fact that none of us is concerned much about them. We are concerned more with our immediate personal welfare than with the general national welfare. Many of us do not vote. Most of us do not know the qualifications of men for public office, and most of us do not make sure that the office-holders know our views on any national problems.

As I indicated in the beginning, we all have time to sell. We have nothing else. What we can get for that time is the struggle in which we spend our lives.

Industry's View on Wage-Price Relations: II

By EARL BUNTING*

WAGES ARE BOTH income and costs. To the worker, they are income; to the employer, they are costs. Wages represent purchasing power, of vital importance to the worker. Wages affect the sales price of a manufacturers' output, of equal importance to the manufacturer and to consumers, the vast majority of whom are wage earners. As the principal element of cost, therefore, it is inevitable that wage rates have immediate effects upon costs, prices, and the cost of living.

President Truman, on January 14, 1948, transmitted to the Congress his Economic Report. The extent to which the American people understand the purely economic aspects of wages and their relationship to the cost of living will determine many of the decisions which must be made to keep America strong, and meet the challenge of Communism at home and throughout the world.

Much valuable statistical material is incorporated in President Truman's report. If the statistical data could be analyzed and understood by all the American people, the country would soon commence to get into much better shape. Unfortunately, some of the President's analysis of the statistical information leads to misconceptions and unwarranted conclusions.

For instance, on page 34 of his report, the President said, "The abolition of OPA raised the question how the economy would adjust itself to freedom from price controls. The answer was soon read in the sharp rise of wholesale prices between June and December 1946. This was at an annual rate of almost 50 per cent, one of the steepest rises ever recorded. Consumers prices rose at an annual rate of 30 per cent during this same period."

My comment on this statement is that on page 36 of the President's report, the percentage changes in wholesale prices from June 1946 to December 1947, a period of seventeen months, show an annual rate of increase of not more than 33 per cent for *any* twelve-months period out of the seventeen months instead of the 50 per cent quoted by the President. During the same seventeen-months' period, consumers' prices ad-

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vanced by a total of 23.7 per cent, or at an annual rate of slightly less than 18 per cent for *any* twelve months out of the seventeen months, instead of an annual rate of 30 per cent as cited by the President.

In a free market anything which interferes with output serves to keep costs and prices artificially high. Production interruptions brought about by strikes in 1946 prevented maximum output. In addition, labor leaders and workers in the country had been given the false information by the Government that wages could be increased without price increases, all of which contributed to hikes in the cost of living.

The President's report discusses inflationary pressures and presents some information which has a most important bearing upon present living costs, as follows:

"The question has been raised as to whether we had inflationary pressure because of large exports, because of the very high rate of business investment, because of the large amount of residential and commercial construction, or because of the high level of consumer spending. The answer is that we had inflationary pressure because the sum total of these combined factors exerted too great a demand on available supplies. No one factor can be singled out as the principal cause.

"Moreover, these factors could not have become fully operative without funds to make them effective. In addition to funds growing out of current incomes, there were several large special sources of funds in 1947. The major ones were: (1) the liquidation of dollar balances and sales of gold by foreign countries and spending by foreign countries of loans and grants provided by the United States; (2) the spending of liquid funds accumulated by business firms during the war; (3) the liquidation of private savings; (4) the increase of bank credit to finance inventory accumulation, capital expansion, and construction; (5) the increase of consumer credit; and (6) the cashing of veterans' terminal-leave bonds. Some of these sources of liquid funds are being exhausted and are nonrecurring, so that further expansion must increasingly be financed out of current credit."

It is too bad that emphasis has not been placed upon this portion of the President's report to the Congress, because he has listed six principal reasons for inflationary pressures.

Some time ago the NAM published a series of advertisements in principal newspapers throughout the country for the purpose of attempting to develop public understanding of inflation and its causes. These NAM ads made the statement that "wet streets don't cause rain" and "neither do high prices cause inflation." It is pleasing to see that the President has recognized the truth of what the NAM was attempting to tell the public.

Industrial wages have doubled since 1939. Because the rise has not been accompanied by a corresponding increase in unit output per man hour, they represent a major economic pressure which has increased the cost of manufactured goods and has resulted in the present high price levels.

I don't mean to infer that labor is to blame for the failure to balance output per man hour with increased wages per man hour. The truth is that business failed to maintain its historic rate of capital formation from 1930 to 1945 to the extent of approximately $144,000,000,000. Capital was not providing labor with the tools it needed.

During the sixty years ending in 1929, capital formation took out of gross national product approximately 20 per cent per year. This money was used for capital formation during that period of industrial growth, and until the incentive to risk has been restored to America it will be impossible for capital to be provided for the new tools, the new industries, and the new processes which are awaiting investment.

From 1939 to November 1947 production of manufactured goods increased by 32.6 per cent. Workers in manufacturing plants in this same period increased by 57.3 per cent. Average weekly wages in manufacturing plants increased by 115.0 per cent. Wholesale prices of all manufactured goods increased 88.0 per cent. Real weekly wages actually increased 29.7 per cent in the same period. I repeat that output per man hour is not a measure of personal labor effort. This is probably a minor factor in productivity. The really important improvements in output per man hour originate in management, money and machines. Before the worker can do a job in his field, he must have machinery and equipment. His machine must be supplied with raw materials. These materials and his working equipment have to be housed in suitable buildings. All of this takes capital.

Of course, many things besides mechanization have made important contributions to personal efficiency of labor, such as standardization of production, better scheduling, more effective marketing, design improvements, refinements of materials, and development of new processes such as extrusion molding and die casting. Better plant layout and flow of work, more attention to job analysis, quality control, time and motion studies, along with improved methods of materials handling, better training and better leadership on the job have all played their parts in the records made in the hourly output of the individual worker. While there have been undoubtedly some slow-downs and some types of featherbedding, they are the exceptions rather than the rule.

In order that the relationship between worker productivity and wage cost per unit of production may be better understood, a study has been made based on data of the Bureau of Labor Statistics and Federal Reserve Board. By using the year 1939 as a base with an index value of 100, we find that by late 1947 the production per man hour had been raised to about 107, whereas the wage cost per unit of production had advanced to about 187. Almost the entire rise in hourly wages was thus reflected in unit costs.

In order that no one can assume that this is only a postwar problem, let's drop back to the year 1943 and compare it with the year 1939. In 1943, wage-cost per unit of production had advanced to an index of 139.0, with output per man hour only 98.7 per cent of 1939. By V-J Day, hourly earnings in manufacturing were running 62 per cent above 1939 and unit labor costs were about 50 per cent above that prewar level, because productivity was still virtually unchanged. This process of adjustment continued right through to October 1947 when industrial hourly wages were almost double their prewar level, the wage cost per unit of production averaged 87 per cent above 1939, and, as I have shown, the improvement in output per man hour was sadly inadequate.

Various estimates have been made that wages represent approximately 85 per cent of the total cost of all manufactured goods. This statement does not mean that the wages paid directly by manufacturers represent 85 per cent of their total cost of production, but it does mean that the part that wages play, including those wages embedded in the cost of all materials and supplies, transportation, etc., does account for the 85 per cent.

It should be obvious that any increase in wages, not accompanied by an offsetting increase in output per man hour, inevitably and directly affects the cost, and inevitably and directly is transferred to the consumer in the form of increased selling prices.

An increase of 10 cents per hour from a basic wage rate of $1.00 per hour doesn't sound too big to the public. However, if the public understands that in the case of a manufacturing concern earning 12 per cent net profit before taxes, this means an increase of more than 7½ per cent in the sales price of the merchandise, it becomes an important element to consider.

In September 1945, the first month after the war ended, average hourly earnings in manufacturing industries were $0.987. As of September 1947 this average had increased to $1.25 per hour, an increase in hourly rates of more than 26 per cent.

The President's report points out that the average family income in this country, before taxes, increased about 30 per cent between 1941 and 1946. The income of the lowest fifth increased by 68 per cent, the second fifth 59 per cent, the third fifth 36 per cent, the fourth fifth 30 per cent and the highest fifth 20 per cent. Thus it will be seen that two fifths of the families of the country, those families of lowest incomes, had increases in their incomes more than double the average for all families of the country. Income changes since 1941 have been very much to the benefit of the low income groups, which is a most desirable social and economic objective.

Gross national product for 1947 is estimated to be $231,800,000,000, of which total personal income accounted for $197,200,000,000, thus, about 85 per cent of the gross national product was paid to individuals. Of the total payments to individuals, dividends accounted for $6,600,000,000 or about 2.8 per cent.

By way of contrast, total income of individuals in the boom year of 1929 amounted to $85,100,000,000 out of a gross national product of $103,800,000,000. This was about 82 per cent of the gross national product as compared to 85 per cent in 1947. Dividends in 1929 amounted to $5,800,000,000, and were at the rate of about 5.6 per cent of the gross national product in 1929, as compared to 2.8 per cent in 1947.

The effect of corporation profits has been the subject of much discussion in the last year. Profits, after taxes, may be measured in two forms to reflect their impact upon the economy. One method for the consumer to determine the influence upon the cost of living is to examine the part that corporation profits play in relation to sales of corporations. Excluding finance, insurance and real estate corporations, all other private corporations had as profits after taxes, in the year 1947, the following relationship to sales: during the first quarter, 5.6 per cent; during the second quarter, 5.3 per cent; and during the third quarter, 5.1 per cent.

The economist is interested in the percentage of the gross national product represented by corporation income, after taxes. All corporate profits, after inventory adjustment and federal taxes, amounted to $12,000,000,000 in 1947 or about 5.2 per cent of the gross national product.

In this connection, it should be noted that according to the President's report in the second half of 1947 business retained undistributed profits and reserves (for depreciation, etc.) at an annual rate of $17,800,000,000, but put $11,200,000,000 into new construction, $18,000,000,000 into producers durable equipment and $2,500,000,000 into increases in inventories. Expenditures for these purposes amounted to $31,700,000,000, which exceeded the amount of undistributed profits and reserves retained by $13,900,000,000.

The President stated that the securities markets furnished less equity capital in 1947 than in 1946. They provided only one-sixth of the new capital required during 1947. Business made large use of previously accumulated funds for expansion of output during 1947. These funds are approaching exhaustion. There is no means by which capital can be provided for the future industrial growth of this country unless it comes from individuals and institutions willing to risk their funds in equity investments.

Two necessary steps must be taken in order that this situation be corrected. Substantial reductions in the cost of the Federal Government are required with correspondingly fair decreases in the rates of federal taxes paid by individuals, in order that the incentive to make investments may be reëstablished in America.

The President's report shows the disposable incomes of consumers, less their expenditures and the resultant savings. In 1939, consumer income was $70,200,000,000, of which expenditures accounted for $67,500,000,000, leaving net consumer savings at $2,700,000,000. In the first half of 1947 these factors, seasonally adjusted to reflect annual rates, were running as follows: consumer disposable income $170,300,000,000, expenditures $160,000,000,000, net consumer savings $10,300,000,000. In the second half of 1947, again seasonally adjusted to reflect annual rates, consumers' disposable income had reached $180,800,000,000, expenditures totaled $169,000,000,000 and savings had increased to an annual rate of $11,800,000,000. It is interesting to note that consumer saving in the second half of 1947 was more than four times the rate of 1939.

Total payments to labor less employee contributions for social insurance and plus other labor income, amounted, in 1939, to $45,700,000,000. In the second half of 1947 labor income was running at the rate of $126,200,000,000 annually. The money income of labor in the second half of 1947 was more than 2.7 times such income in 1939.

With 1935 to 1939 given an index value of 100, the real disposable income per capita in 1947 was 149. This compares to a low in the depression year of 1933 of 76. It also compares with the real disposable income in 1929 of 108.

According to Bureau of Labor Statistics, there were in 1939, 8,192,000 production workers, who averaged $23.86 per week. In December 1947 there were 12,960,000, who averaged $52.74 per week.

Wages paid by manufacturers in 1939 were $9.4 billions. The corresponding total for 1947 was $30.5 billions.

Average weekly earnings in manufacturing in December 1947, amounting to $52.47, were 2.2 times the average weekly earnings of $23.86 for the year 1939.

Again using 1935–1939 as a base of 100, the industrial production index in November 1947 was 192 compared to 109 for the monthly average industrial production in 1939.

In other words, while average weekly wages were increasing 2.2 times, manufacturing output was going up 1.8 times, again pointing out that without increasing the worker's productivity through the use of new and better tools, it is not possible to increase wages.

Having these facts before us with respect to the economic problems facing this country, and with an understanding of the real relationships between wages and cost of living, it becomes necessary that all of the principal groups concerned with these problems should unite in efforts at their solution. This includes agriculture, labor, business, and government. We must have public understanding of the facts and we must have coöperation between all interested groups in bringing about a better and more satisfactory way of living in America.

Can Wages Be Left to Collective Bargaining?

By GEORGE W. TAYLOR*

I

OUR GENERATION has learned the secret of atomic energy, but it still limps along with an inadequate knowledge about what are equitable and economically sound principles for wage determination. In the absence of generally acceptable standards for establishing wages, we have come to rely upon a collective bargaining system in which relative economic power provides the final arbitrament. Rights to strike and to lockout have particular functions to perform. They induce the compromises which make agreement possible.

Two criteria for wage determination are significant when organized labor and management have the right to use economic force for the resolution of differences between them. The criteria are: (1) What wage will be agreed to as immediately preferable to the costs and the risks of a work stoppage? (2) What wage will be agreed to as immediately preferable to continuance of a work stoppage already under way? These are points of reference which are seldom talked about. The extent to which these criteria are used cannot precisely be known, since agreements arrived at through their use are frequently explained by rationalizing references to more erudite considerations. There are times, however, when what it takes to avoid a stoppage is the most important of all the principles used in wage determination.

Many advantages obtain from the use of this system. They will be noted presently. There are also some marked disadvantages. When free collective bargaining prevails, organized labor and management have a wide latitude in the way they direct their economic power against each other. The power will be used with restraint in some cases but with reckless abandon in others. Long-run interests and broad social responsibilities will be carefully accounted for in some joint relationships but totally ignored in others. Self-interest is variously conceived. Sound wage

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determination thus depends, in large measure, upon the restraint and the wisdom with which their economic power is wielded by management and by organized labor.

The resultant shortcomings have doubtless been exaggerated. They have been serious enough, however, to evoke widespread public dissatisfaction with, and growing skepticism about, the efficacy of collective bargaining. The government was called upon, in 1935 and again in 1947, to adjust the economic power possessed by management and by organized labor so that an "equality of bargaining power" would obtain—so that neither would be able arbitrarily to impose its will on the other.

The government actually went far beyond the adjustment of economic power when it passed the Taft-Hartley Act. Negotiating procedures have also been regulated in an attempt to channel the use of economic power toward agreement-making and away from actual stoppages of production. In addition, the merits of certain substantive issues of industrial relations were evaluated by Congress. Contract terms for settling disputes over union security, welfare funds, work jurisdictional matters and so-called featherbedding practices were made subject to regulation. Certain aspects of these subjects were removed entirely from the scope of collective bargaining. They were transferred from the economic to the political arena. No longer is relative economic power the final determinant of disputes in these areas.

Wage determination still remains in the hands of organized labor and management. It is perhaps the most important function of collective bargaining. Economic force may still be freely called upon as a last resort to settle disputes over wages or even as the primary force for wage determination. But the handwriting on the wall is clear. Experience has shown, beyond a shadow of doubt, the strong restraints in the background against either widespread use or abuse of this method of wage determination. Heavy losers in the test of economic power call upon the government for assistance. And the call for government intervention can come from employees, management or the consumers. A gradual eclipse of collective bargaining and an ever-increasing degree of government regulation over industrial relations is a virtual certainty if collective bargaining operates as a one-sided mechanism. Collective bargaining carries the seeds of its own destruction.

Relative economic power is thus only theoretically the final arbitrament of wage disputes. Government review of the results and possible regulation is a strong restraint upon the use of economic power. Collective bargaining will work satisfactorily only if it is conceived, both by organized labor and management, essentially as a process for bringing about a voluntary meeting of minds. Each party has a selfish interest in seeing that the fundamental security requirements of the other party and the needs of the consumer are provided for if they would keep the government out of industrial relations.

Because of these considerations, collective bargaining is sometimes used synonymously with industrial self-government. Those who possess power so seldom exercise it with restraint and wisdom. There is a growing tendency, therefore, for "realists" to dismiss collective bargaining as an idealistic conception which is doomed to failure. Industrial self-government is truly an idealistic concept—just about as idealistic as the kind of democracy which we are convinced is the best way of life.

Against this background, the absence of accepted objective criteria for wage determination becomes a serious matter. Perhaps the lack of such criteria is the principal impediment to making collective bargaining work. Assuming that bargainers want to be industrial statesmen, what wage policies should they pursue?

There is, to be sure, no scarcity of economic wage theories. Wages have been variously related to productivity, maintenance of purchasing power, cost-of-living changes, ability to pay, comparative wage rates and many other factors. The trouble is that there are "respectable" wage theories to support the most widely varying contentions. So-called objective criteria are often used mainly to support arguments or to rationalize decisions otherwise arrived at. Only to a limited extent do they aid in the actual formulation of policies and positions. Substitution of intelligence for the tactics-and-brawn formula in wage determination has still largely to be accomplished.

As first steps in the search for objective criteria to be used in wage determination, I submit three propositions.

1. No real progress in arriving at such criteria is possible unless organized labor and management first see eye-to-eye upon the fundamental purposes of a wage policy. For example, if a union seeks to stabilize wage-rates between competing establishments, in order to "take wages out of competition," while management is convinced that wage determination is strictly a plant-by-plant proposition, then no sound basis for the development of criteria exists. The criteria themselves will be a subject of dispute.

2. Criteria for universal application, in all industries and under all economic circumstances, cannot be devised. There is no magic formula. Applicable points of reference will necessarily vary between industries and with changing economic circumstances. Prevailing occupational rates in an area, cutting across industry lines, may be of compelling importance in a tight labor market. They may give way to comparative labor costs in competing plants, regardless of their geographic location,

when competition in the sale of goods is intense. Criteria for setting wages in an expanding industry may be quite different from those applicable in a declining industry. And whether labor costs are a large or a small percentage of total manufacturing costs may call for significant differences in wage-setting principles.

3. Criteria for wage determination have to be worked out primarily by labor and management themselves if the principles of collective bargaining are to be preserved. And they probably have to be applied case by case to take account of the total economic situation of a plant or industry at any given time. Selection of criteria for wage determination is often tantamount to deciding what wages will be paid. If criteria are imposed upon labor and management, a form of compulsory arbitration will be inaugurated. Universities or arbitrators may assist in defining the various criteria that are available, and they can interpret experience to indicate the particular circumstances under which each criterion can be applied with good results. But, agreement of the parties upon the criteria applicable to their case is essential. The choice between industrial self-government and outside regulation of labor relations cannot be sidestepped.

II

Reference has just been made to the necessity for management and labor to see eye-to-eye as respects the purposes of collective bargaining over wages. The public should also be aware of bargaining objectives if a proper appraisal of results is to be made. Differences over the exact nature of the wage-setting function of collective bargaining constitute the greatest gap that needs bridging if industrial peace is to be achieved. In order to view this matter in proper perspective, the circumstances which led up to formal adoption of collective bargaining as the foundation of industrial relations, and to subsequent government policies, will be briefly referred to.

Prior to the widespread organization of unions, so-called individual bargaining prevailed in the United States. Wages were commonly paid to the man and not for the job. Wage schedules were flexible and responsive to changes in the business cycle. An emphasis was placed upon competitive wage costs almost to the exclusion of stability of wage-rates and whatever economic security such stability may provide. The individual bargaining method for determining wages was rejected, when the Wagner Act was passed, as inequitable to employees and as unstabilizing to the national economy.

A principal purpose of the Wagner Act was to give employees a means of defending their labor standards when jobs are scarce. They should not be forced to compete between themselves for such jobs because that would mean bartering away health and economic security on a business downswing. The country felt strongly about this matter in 1935. Collective control of jobs looked like an essential need for the national interest.

It should be noted that collective bargaining was also, at least inferentially, expected to bring about a stabilization of wage-rate structures "within and between competitive industries." Means of preventing a disorderly downward spiralling of wages and of prices were very much in the public mind when the Wagner Act was passed. Concern about the wage-price relationship has not always been centered about burdens borne by consumers. That relationship has sometimes been inequitable for employees and for employers. One of the hopes for collective bargaining, as yet untested, is that it may act as a bulwark against a chaotic downward spiral of wages and prices.

At any event, the national labor policy of assisting union organization came into being. The economic power of employees was deliberately enhanced in order that they would be in a better position to attain their objectives which then seemed to be so very much in the national interest.

The fundamental nature of the national labor policy was government regulation of the balance of power between employees and management. Employees and organized labor initially benefited. Between 1935 and 1947, however, a drastic change occurred in the prevailing ideas about what constitutes an equality of bargaining power. The concepts changed so fundamentally because economic conditions were entirely different. In 1947, jobs were not scarce; employees were. There was a widespread conviction that irresponsible wage policies pursued by the unions resulted not in wage stabilization but in unduly large price increases which added force to the upward surge of inflation.

Some unions unquestionably abused their newly won power. A proper evaluation of the fundamental factors requires, it seems to me, a recognition of the overwhelming importance of economic influences. Union power in the postwar period derived basically from a shortage of employees at a time when living costs were rising as never before and when industrial profits were never better. Organized employees held a bargaining edge over unorganized employers in many industries. Small and medium-sized companies complained that they were denied their collective bargaining rights. These complaints were strongly reminiscent of the contention of unorganized employees in earlier years. In consequence, the objectives of the labor movement, approved as an essential aid to stabilization in 1935, were rejected as monopolistic in 1947.

The Wagner Act was a product of depression; the Taft-Hartly Act was a product of inflation. It is not easy to develop one national labor policy ideally adapted to the needs of both depression and inflation.

Whether or not the Taft-Hartley Act works out reasonably well depends, in no small measure, upon the vagaries of the business cycle. It could not possibly survive a depression in which labor standards were demoralized in a swirling downward wage-price spiral.

We know now that, when the government policy is to equalize bargaining power, the argument about what constitutes equality will be never-ending. Even though the government stops short of dictating the terms of employment, the results of collective bargaining are strongly affected when government throws its weight behind one party and against the other. Whether or not the bargaining power of one party is considered excessive at any time depends, moreover, upon the degree of legitimacy assigned to the objectives of organized labor and of management.

Is it legitimate for labor unions to be strong enough to effectuate a standard wage policy for competing concerns? Or is proper wage determination a plant-by-plant proposition? This issue has now been thrown into the political arena. Until the issue is resolved by an understanding between organized labor and industry, wage determination will have serious conflict attributes.

III

The attention earlier directed to the need for objective criteria in wage determination should not be interpreted as a denial of effectiveness to the criterion of what is necessary to avoid industrial conflict. That pragmatic standard will be an important one so long as collective bargaining prevails. It can give highly satisfactory results—if long-term self-interest factors, as well as short-term ones, are recognized by negotiators.

As already noted, relative economic power as a final arbitrament is subject to considerable restraint. If power is abused by either side, or if the public widely believes it has been abused, the government may be called upon to redress the balance. There are other restraints.

It is a salutary circumstance that the criterion of what it takes to avoid a strike often gives reasonable economic results. The immediate interests of each party are served by avoiding the costs and the risks of a work stoppage. The strongest kind of inducement thus exists for those compromises which are necessary to consummate an agreement. Wage bargainers also have to take care lest they price goods and jobs out of the market. There is no point in getting high wage-rates at which employees do not work or in gaining wages too low to maintain an efficient work force.

Collective bargaining is thus a highly complex system of checks and balances for determining wages. Wage controls and regulations have been deemed necessary in our economy. They are needed to limit the competition of individual workers for jobs and to assist the search for greater industrial stability in an economy characterized by wide swings of the business cycle.

Great advantages derive from the promulgation of wage regulations through collective bargaining rather than by direct government specification. The regulations will be better adapted to the diverse needs of different industries. Governmental sanctions to force employees to work and management to operate plants under protested terms of employment can be avoided. Government regulation of wages would doubtless be followed, moreover, by regulation of other aspects of the productive process. Much more than the wage-price relationship is at stake in the challenge to make collective bargaining work.

There is a growing feeling, nevertheless, that the costs of collective bargaining may outweigh its advantages. The principal objections to collective bargaining as a wage-determining mechanism center about the idea that the process is inherently anticonsumer. If labor and management can't agree upon terms of employment, a stoppage of production may impose heavier burdens upon the public than upon the parties directly involved in the dispute. If the parties do agree, there is no assurance that the terms of employment will give a proper regard to the consumer need for more goods and at prices which can be paid. Both of these contentions have to be carefully examined in a study of the adequacy of collective bargaining.

Recent events have shown conclusively that stoppages of production must, in general, be used as last resort weapons if the rights of strike and lockout are to be securely preserved. There is no need further to amplify that point. But it is essential to note that one anticonsumer use of strikes has to be eliminated. Where a work stoppage would create a public emergency, the use of economic force is, for all practical purposes, not available to the parties for settling their dispute. Such strikes can't be permitted to run their course. They can't perform their collective bargaining function of bringing the other party to terms. The disputants can hold out longer than the public. Since such strikes exert primary pressure upon the government to intervene, they are not only anticonsumer, but anticollective bargaining as well.

Voluntary arbitration is the most likely hope for the settlement of persistent wage issues, and other issues as well, where public interests are paramount. During World War II, and immediately following, voluntary arbitration of the terms of future wage agreements has been used more extensively than ever before. Many strikes have been avoided. It should be frankly admitted, however, the results have not been as satisfactory as they should be to labor or to management. And I might add that many arbitrators have not been too happy about the consequences. They have often borne the brunt of the lack of general understanding of wage determination.

Various attempts are being made to minimize the difficulties by developing the concept of arbitration as a judicial proceeding. The trouble is that a judicial proceeding requires a law or a code to administer. Or, there could conceivably develop, out of various arbitration proceedings, a sort of common law. Therefore, arbitrators' decisions are published and are carefully scrutinized to discern the makings of a common law. In this connection, a great hue and cry has been raised about the conflicting reasoning employed by different arbitrators in deciding cases. No "common law" is being created.

Great risks are often entailed, therefore, in submitting a case to arbitration. There's no doubt about that. If that situation continues, it might be suggested that avoidance of arbitration could become as effective an inducer of agreement as avoidance of a strike. But, of course, we ought to be able to do better than merely substitute one form of pressure for another. Otherwise, arbitration will be exposed, like collective bargaining itself, to the risk of government regulation.

I doubt the validity of the suggestions, however, that all would be well if arbitrators would only lend their efforts toward the development of standard criteria for wage determination. I have some doubts about the genuineness of some demands for objective criteria devised to further the general welfare. All too frequently, such suggestions come from management or labor representatives who feel aggrieved because they believe they have lost a case because certain criteria were applied. They would like to see greater weight given to those criteria which would win cases for them. Would the result they seek be less open to criticism from the other side? Do the protesters really want rigid, objective criteria, or do they want to win more cases by one means or another? The demand for firm criteria can have opportunistic and self-serving characteristics.

Reference has already been made to the impossibility of finding one magic formula for the automatic determination of all wage disputes. In addition, if the determination of wages is to be made by reference to some inflexible standard, set up without regard to the merits of a particular case, is it likely that disputants would voluntarily agree to arbitrate? One side or the other might prefer to take its chances on an economic show-down. There needs to be a most serious consideration of the question: Would the establishment of rigid criteria for wage determination result in less arbitration and in greater industrial warfare?

There is one way materially to improve the arbitration process. Organized labor and management could make much better use of what I call the forgotten document of industrial relations—the stipulation to arbitrate. A stipulation that provides no instruction or no guidance to the arbitrator is essentially an agreement to accept the third party's personal judgment as respects the criteria appropriate to a given situation. Whether or not the arbitrator should look to "precedents" established by different arbitrators in other cases is a highly debatable point. Especially is this the case as long as decisions will have various bases. If the parties wanted somebody else's judgment, they would have selected that other party as the arbitrator.

If the parties don't want to take the risk of an arbitrator's unguided judgment, and there are ample reasons for not doing so, they should work out instructions or criteria that both believe should be followed by an arbitrator in deciding the particular case at issue. Through such a procedure commonly accepted criteria for wage determination can be most satisfactorily developed. Only in that way can a sound common law emerge. It's not an easy road for organized labor and management to follow. It's simpler to pass responsibility for criteria over to somebody else. There can be no evading the fact, however, that collective bargaining will succeed only if it is conceived as a process for creating a meeting of minds between organized labor and management.

I am fully aware of the obstacles to improving the stipulation to arbitrate in the manner just suggested. Some industrial relations people in this very audience are thinking right now: "But if the parties could agree on criteria that would direct a wage decision, they could often settle the case directly." I agree. That's one prime advantage of assigning the criteria question to collective bargaining where it belongs. Bargaining over wage criteria has, in my experience, sometimes resulted in an agreement after the parties were resigned to the inevitability of an impasse. A new viewpoint was brought to the negotiations when the disputants pondered about how their positions would look to an outside arbitrator. It can also be said, as a very practical matter, that one party or the other can often more easily assent to a criterion which doesn't support his position than directly to relinquish claims which have been adamantly pursued through a series of difficult negotiations. Sometimes positions are held long after they have been shown to be erroneous because no practical way out can be perceived.

There is an urgent need, indeed, for the development of objective criteria for use in wage determination. I'd like to see the problem tackled by management and labor as a part of their own negotiations whenever direct agreement on a wage dispute reaches an impasse. Criteria to be used in resolving the dispute by an arbitrator are matters of mutual concern. Voluntary arbitration could be developed to a higher point of effectiveness and usefulness by better stipulations to arbitrate. Some of the anticonsumer charges leveled at collective bargaining would disappear if voluntary arbitration could be more extensively used. A mechanism for avoiding work stoppages would be available.

What about the contention that collective bargaining is anticonsumer because some agreements, quite satisfactory to a union and a management, disregard the consumer interest by causing higher prices or shorter supplies of goods? Does collective bargaining inevitably lead to a "ganging up" on the consumer? Is the process a road block in the way of sound economic progress?

Emphasis could be given to those instances, fortunately relatively few, where the consumer does pay an unduly heavy price as a result of some agreements between unions and management. There is another and more important phase of the question that is usually given far less attention. Can the consumer properly be called upon to pay somewhat higher prices for particular products, in order that stabilized wage standards for individual workers might be maintained? The wage-price relationship is a three-sided affair.

Are low-priced consumer goods the sole measure of industrial progress? Or, is it important, for example, to have a wage-price relationship that will assure equitable labor standards, and a consequent stability of labor costs, even though the consumer is denied some benefits of lower prices? Much depends, of course, upon the size of the claim which a stabilized wage for an industry makes upon total national production. The kind of wage stabilization that should be employed is a question, however, which stands by itself. As to the need for wage stabilization in many industries, there can be but little doubt. Nor is it contrary to consumer interests that industrial employees have a measure of wage-rate security. That might be well worth somewhat higher prices for particular products at certain times.

Fundamentally, the issue over wage-price relationships is whether wages should be determined by the competition of individual workers for jobs or on a stabilized basis even though somewhat higher prices may be occasioned at certain times. Involved is no mere academic question. A search for security and economic stability, even at the possible cost of some diminution in the rate of industrial progress, has been a powerful motivating force in the United States for more than a decade.

When Congress declared that "labor is not a commodity," the notion of a fair wage per se received implicit legislative approval. Payment of a certain minimum wage was made an explicit condition precedent to engaging in business when the Fair Labor Standards Act was passed. It was then said, in effect, that an employer who couldn't pay the legally required wage "shouldn't be in business" even though some jobs and some production might be lost in consequence. Nor should the consumer benefit from low prices made possible by the payment of "sub-standard" wages. Wages were not to be a residual share, and the ability of each individual employer to pay was discarded as the compelling criterion for determining minimum wages. To the various bases of wage determination there was thus added the criterion of the fair wage per se. This presupposes there is a claim for wages so equitable that it is classed as a prior claim upon business returns.

The same general philosophy supported the approval given to collective bargaining in 1935. Wages were to be stabilized "within and between competitive industries" by the establishment of uniformly applicable standards. It is easy to accept the fair wage per se criterion for the elimination of sub-standards of living. Most people could agree that ability of an individual company to pay should be given no status if it would lead to the exploitation of workers. The same criterion is subject to many more objections when it is applied in collective bargaining to fix "fair and equitable" standards at levels far above the subsistence line. What is the proper balance between level of wage standards, maximizing employment, and maintaining high production? Should this balance be determined solely by unions and management?

Some very critical problems thus flow from the promulgation of wage regulations by collective bargaining. Many employers deny altogether that establishment of uniform wage standards for competing establishments should be considered a proper function of collective bargaining. They do not accept collective bargaining as a wage-regulating mechanism. The security of individual companies should not be dependent, they hold, upon a general decision made as respects what is a fair wage per se. Wage-bargaining must be conducted on a plant-by-plant basis if management needs and employee job security questions are to be properly dealt with. Only then, it is claimed, will the consumer secure the benefits of a competitive economy to which they are entitled. Multi-employer bargaining is also challenged on the ground that it leads to a union monopoly which will override both consumer and management equities.

The deep-seated opposition to wage regulation through multi-employer bargaining has many facets. The one of greatest interest in the present discussion is the denial of wage-stabilizing functions to collective bargaining. Employers who defend the more competitive approach are not unanimous in the criteria they would use in wage determination. Incidentally, that has always seemed to me to be the principal weakness of their position. It has been my experience that those concerns which have great difficulty in making ends meet are staunch defenders of ability to pay as the compelling wage criterion. They have no aversion to showing their books. Other proponents of plant-by-plant determination, who customarily make large profits, vehemently object to the ability to pay criterion. They champion comparative wage rates or cost-of-living changes as the only sound basis for wage determination. It's the results and not the criteria that interest them.

A fundamental question of wage determination through collective bargaining then, is whether or not a fair wage per se should be agreed upon for competing plants without compelling regard to the ability of each plant to pay such a wage. This is the essence of the conflict over so-called industry-wide bargaining to which Congress has given and is giving such extended attention.

It is not to be inferred that all management representatives conceive of wage determination as a strictly intra-plant proposition. Many of those who are against industry-wide bargaining don't find any advantages in wage stabilization because of the conditions under which they operate. Management advantages are indeed limited when so-called managed prices prevail, when labor costs are a small proportion of total costs, or when a company is large enough to meet the giant union on equal terms. Those conditions don't exist uniformly throughout American industry. Some companies accept the criterion of a fair wage per se as eminently desirable.

In highly competitive industries, like the needle trades for example, management has been ready to join with the unions in bargaining out a multi-employer wage policy. To bring stability to their own chaotic situation, the majority of the companies in such industries often see real advantages in minimizing the "unfair competition" from those "chiselers" who seek to compensate for management deficiencies by paying less than a standard wage. Nor is it only rationalization when they reason that specification of a fair wage per se can intensify competition in the sale of goods based upon managerial efficiency. And provision of a steady supply of goods at more stabilized prices would produce consumer benefits as compared to the feast and famine conditions which had long plagued such industries. The achievements of the needle trades, and others like them, in introducing industrial stability are notable.

There are other types of situations in which management derives advantages from multi-employer bargaining for a fair wage per se. In times of active business and shortage of manpower, disorderly upward spirals of wages can be minimized and labor turnover can be decreased.

Only through multi-employer bargaining, moreover, can whipsawing of small and medium-sized concerns by the union be forestalled. Setting a fair wage per se by group bargaining sometimes provides the only means by which a relatively small employer can secure any voice at all in wage determination, especially if he deals with a union powerful enough unilaterally to impose a multi-employer wage policy.

There are arguments for and against multi-employer bargaining. Acceptance of the "anti" arguments, however, requires a conclusion that wages cannot be stabilized through collective bargaining despite the obvious need for just that kind of wage determination which was most apparent in the early 1930's.

Problems of the deflationary cycle are right now given little weight. We are intent upon the fight against inflation. It is now commonly believed that the power of unions to fix standard wages, or to secure standard wage increases, adds too much to the inflationary spiral. This calls for some analysis. Does the experience of the last few years really indicate that multi-employer bargaining should be restricted, and the criterion of a fair wage per se be eliminated from industrial relations, in the interest of the consumer?

IV

Since 1941, relative production costs and comparative prices have had little bearing upon profitability of operation. Every productive resource was pressed into use irrespective of the cost. There was little or no obsolete equipment. Efficiency on the job was not a critical factor in determining whether an employee kept his job or lost it.

An insatiable demand for goods to fight the war, and then for reconversion purposes, was backed up by an unprecedented purchasing power. In consequence, marginal considerations were temporarily eliminated from business operation. Neither wage determination nor price determination involved much attention to competitive relationships because competition was suspended.

Prices and wages both rose sharply because restraints on their determination were substantially eliminated. Job security necessities imposed no limits upon the size of union wage demands. Difficulties in selling goods presented no impediment upon employers as respects the wages they could agree to pay. At the same time, precipitate increases in the cost of living and the large profits made by most industrial concerns seemed to support the union contention that wages could be substantially raised without any corresponding price increases. The flaw in the reasoning was that the wage-price relationship is not determined by average profits, particularly when consumer demand is insatiable.

Prevailing prices before a wage increase usually gave a "reasonable" profit to the highest cost concerns in an industry, the so-called war babies.

This unusual circumstance was the tangible result of the very large effective demand. Returns to lower cost companies from such prices were bound to be high. Average profits for an industry would also be high.

Whether or not a wage increase would be followed by a price increase depended upon how avidly the consumer desired the goods of the highest cost producer. If his output would still be demanded at a price to cover the wage increase, and sufficient to maintain those newly won "reasonable" profits, then price rises would surely follow wage increases, even though most companies might have been able to absorb the higher cost. The level of profits then mounted up even further with each successive cost increase.

It can be argued that, as a matter of comparative equity, very large profits were due to the more efficiently operated concerns so long as the poorest run enterprises obtained a profit. On the other hand, the suspension of competition made large windfall profits all around. The excess profits tax eliminated some of these windfall profits during the war. The premature repeal of this tax was a serious failure to recognize the unusual economic circumstances which prevailed during the reconversion period.

Only under such circumstances could there be a national pattern of wage increases such as developed in 1946 and in 1947. Wage determination involved the fixing of a fair wage increase per se. It was applied to various kinds of industries which normally operate under widely different economic circumstances. During reconversion they had one common denominator. Production could be sold at a price that would give a "reasonable" profit to the highest cost producer in each industry. From the management standpoint, acceptance of the pattern increase was preferable to a stoppage of production. And the pattern adjustment could be insisted upon by a union without the risk of losing any jobs for its members. Out of these various factors, the wage-price relationship assumed unusual importance and caused great national concern. But it has been a highly complex relationship occasioned by circumstances which, in all probability, are about to change materially.

A national pattern of wage increases cannot so readily be applied to an industry if the added cost will make it impossible for a large number of companies to sell their output and to maintain jobs. A fair wage per se can't be fixed so high as to bring a rash of closed plants and a mass of unemployment. As consumer demand becomes selective and rejective, wage policies in multi-employer bargaining will have to be fashioned more and more to meet the particular problems of individual industries. The national wage pattern will be outmoded. That time is here for some industries and is rapidly approaching for others.

Another new development should be anticipated. Although second round wage increases were not generally absorbed out of profits, some third round wage increases, or parts of them, probably will be. This is not just because average profits are high. It is also because the consumer will be able to dispense with, or is unable to buy, the output of those firms whose goods are least desirable. As stocks of goods on the shelves are replenished and as the consumer starts to pick and choose between the products offered for sale, the profits of many war-born plants will diminish or disappear. Average profits will then be brought down to size as any added costs, such as third round increases, are absorbed. At the same time, total employment and total output will be more difficult to maintain. They will be kept up only if more efficiently run plants are able to fill the gap left by the demise of the sub-marginal companies. In many ways, when such problems are met face-to-face, the most formidable aspects of reconversion will be encountered.

Still ahead lies the challenge of what constitutes a sound basis for determining a fair wage per se in multi-employer bargaining under competitive conditions. Wages can be "taken out of competition," with proper regard for full employment and maximum production necessities, by fixing a standard wage for rigid application relatively low. Otherwise, too many jobs and too much production would be sacrificed. There are obvious practical objections to such an approach. They suggest the appropriateness of setting a higher standard along with provision for considerable deviation upward and downward in particuular cases. Reference may also be made to the pertinence of union-management coöperation in cost reduction programs to avoid a heavy impact of standard wage upon job and plant security.

It is not easy to introduce flexibility in multi-employer bargaining arrangements. The mere provision of a standard wage induces a demand for inflexible adherence to it. Any single deviation sets up a cry for "equality of treatment" and induces protests against "preferential treatment." Despite formidable obstacles in the way, only by balancing the fair wage per se with the needs of maximum employment and production can multi-employer bargaining meet its full wage determination responsibilities. Only then can a proper answer be given to the charges that collective bargaining is anticonsumer.

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Can wages be left to collective bargaining? Most of the leaders of organized labor and of management say they are convinced that collective bargaining is the only sound way for them to resolve their differences. Substance will be given to this unanimity of view only when their concepts of the wage determination function coincide and when they accept the task of developing a better understanding and use of objective criteria for wage determination.

Our nation holds tenaciously to the belief that the rights of strike and of lockout should be preserved as essential to our kind of democracy. We strongly oppose the notion that government should make men work or management operate factories against their wills. There is an almost equally strong opinion, however, that the actual exercise of private rights to stop production should be a last resort to be taken only upon extreme provocation and only after every reasonable means of settling differences has been exhausted. We don't accept the view that "might makes right" even in industrial relations. On two occasions in recent years, the government has intervened in industrial relations at the behest of the public which believed that economic power of management or organized labor was being used to create or to perpetuate inequitable conditions of employment.

Wages will securely remain a function of collective bargaining only if that process is conceived and developed by organized labor and by management essentially as an agreement-making mechanism in the operation of which a reasonable regard is given to consumer interest. Determination of wages through the unreasoned arbitrament of economic power is not good enough. Intensive consideration has to be given to the development and use of objective criteria for wage determination that will conserve the interests and the equities of employees, management, and the consumer. If the idealistic principle of industrial self-government is to become a reality, organized labor and management have the primary responsibility for laying the groundwork for industrial peace. Theirs is the duty to work out the wage policies which are compatible both with the concepts of wage stabilization and economic progress.

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