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Edwin E. Witte

University of Wisconsin

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CRITERIA IN WAGE RATE DETERMINATIONS

EDWIN E. WITTE†

I. WAGE RATE DETERMINATION AND ECONOMIC THEORY

At the outset let me make it clear that I am not a great expert on wage rate determination. I will not attempt to answer such \$64 questions as: What percentage of the national income should go for wages? What is a fair wage for a given occupation? What effect do wage increases have upon the economy? Or, that "double or nothing" question: Are the steel workers, the automobile workers, or the coal miners entitled to a wage increase at this time and, if so, how much? Neither this economist, nor any other economist, I believe, can give you an answer to questions of this sort which can be relied upon as practical guides.

Less than two decades ago, most economists would have had a ready answer to the basic question, what wage rate should be paid in a given situation or to a particular group of workers.¹ That answer would have been, "the value of the marginal product produced by labor." Not only was this standard deemed fair and equitable, but it was looked upon by many as an inescapable law limiting the return to labor, any departure from which inevitably would result in reduced employment. Hotly debated was the question whether unionism and collective bargaining could raise the total return to labor above this natural level, with the pre-ominant view that gains for the organized were made at the expense of the unorganized.

Even at that time, collective bargaining had many supporters among economists. Insofar as they defended their views on theoretical grounds, these economists claimed for collective bargaining only that it enabled workers to get the full value of their marginal product, while otherwise they were in danger of exploitation, often getting less than this standard under individual bargaining, because they lacked the waiting power of their employers.

Widely accepted also, although with dissents by some eminent

† Professor of Economics, University of Wisconsin.

1. For a good review of wage theory in economic literature in the last 15 years, see Ellis, *A Survey of Contemporary Economics* (1948) 255-268 (written by Lloyd G. Reynolds).

economists, was the view that normal workers, at the minimum, were entitled to a living wage, defined in the statutes as a wage sufficient for complete self-support at standards consistent with health and decency. The living wage was championed principally on ethical and moral grounds by its foremost advocate, the late Msgr. John A. Ryan.² But there was also a belief that, from society's point of view, maintenance of the working force needs must be a first charge upon industry.

In the last decades the marginal productivity theory of wage determination has met further challenge on theoretical grounds from Keynesian economics. This should, perhaps, be called the present-day orthodox economics in the United States, inasmuch as it is the accepted economic theory of most of the economists under 50 years of age, who constitute a majority of all economists. Not being in that age group, I do not subscribe to all the Keynesian tenets, but it must be recognized that in their emphasis upon the demand side of the supply and demand equation Lord Keynes and his followers have made an important contribution to economic theory. Applied to wage determination, the present-day (Keynesian) economics stresses that wages are not only a cost of production but the source of income of the largest element in our population. Long before Lord Keynes wrote his *General Theory*,³ Henry Ford instituted his \$5 per day minimum wage and proclaimed what became the generally accepted view of American business in the nineteen twenties, that mass production depends upon mass purchasing power. We may not go to the limits of some Keynesians in regarding high wages as a means of assuring lasting prosperity, but it is undeniable that reductions in the total income of the workers are likely to have deleterious effects upon our economy. That is certain to be the result unless wages are out of line with other prices or there are price reductions in the things workers buy equal to the wage reductions. But unanswered is the question whether increases in wage rates may not result in such a reduction of employment as to yield a lesser total income to the workers than a lower rate.

In the last years there has been greatly increased interest in

2. Ryan, John A., *A Living Wage; Its Ethical and Economic Aspects* (1906).

3. Keynes, John M., *The General Theory of Employment, Interest, and Money* (1936).

wage theory among economists. This interest has developed, particularly among younger economists, many of whom are connected with the institutes of industrial relations or labor-management centers which have been established in many of our leading universities. These economists are much better grounded in economic theory than were the older "labor economists," who often have been accused by many of their professional brethren of not being economists at all. The economists who are now writing on wage theory understand thoroughly both neo-classical and Keynesian economics. Their approach to wage rate determination, however, has not been that of deductive reasoning alone, but they have supplemented such reasoning by observations in practical situations they have studied. They, moreover, have not confined their research to the limits of academic economics, but have studied situations as a whole and utilized the contributions to industrial relations made by other social sciences.

I will not attempt to even summarize the contributions to wage theory made by Reynolds, Dunlop, Ross, Lester and others of these younger economists.⁴ One fact which they have made very clear concerns the complexity of wage rates. The older theorists discussed wages in terms of a single rate per hour or per piece, and often reduced all work to a single category,

4. Among the most noteworthy contributions to wage theory in recent years are the following: Reynolds, Lloyd G., *Labor Economics and Labor Problems* (1949) 319-463; Reynolds, Lloyd G., *Toward a Short-Run Theory of Wages* (1948) 38 *American Economic Review* 289-308; Dunlop, John T., *Wage Determination under Trade Unions* (1944); Dunlop, John T., *Productivity, Income, and Employment in Harris, Seymour E., Income, Employment, and Public Policy* (1948) 341-362; Ross, Arthur M., *Trade Union Wage Policy* (University of California, 1948); Ross, Arthur M., *The Dynamics of Wage Determinations under Collective Bargaining* (1947) 37 *American Economic Review* 793-822; Lester, Richard A. and Shister, Joseph, *Insights into Labor Issues* 197-225 (by Richard A. Lester); Lester, Richard A., *Wage Diversity and its Theoretical Implication* (1946) 27 *Review of Economic Statistics* 152-159; Lester, Richard A., *Shortcomings of Marginal Analysis for Wage-Employment Policies* (1946) 36 *American Economic Review* 63-82.

In addition to the above writings of younger economists, noteworthy discussions of wage rate determination in its theoretical aspects written in the last few years include: Clark, J. M., *The Relation of Wages to Progress in The Conditions of Industrial Progress* (University of Pennsylvania, 1947) 22-39; Hansen, Alvin H., *Perspectives on the Wage-Price Problem in Wages, Prices, and National Welfare* (University of California, 1948) 1-8; Slichter, Sumner H., *Basic Criteria Used in Wage Negotiations* (Chicago Association of Commerce and Industry, 1947); Taylor, George W., *Can Wages be Left to Collective Bargaining in Wages, Prices, and National Welfare* (University of California, 1948) 32-47.

"labor." The recent writings have emphasized that there are many supplements to wages in present day industry: vacation pay, paid holidays, group insurance, retirement pensions, health and welfare benefits, sick leave, severance pay, and still others. There also are many conditions under which pay is either increased or reduced: overtime and penalty rates, premiums for disagreeable work, shift premiums, travel time, call-in-pay, down time, clothes changing and wash-up time, clothing allowances, deductions for breakage or spoiled work, and many others.⁵ A study of the situation a year ago by Automotive and Aviation Parts, Inc., the trade association of the automobile parts industry, found that such "fringe benefits" increased wages by an average of 12¼c per hour. The Rhode Island Textile Manufacturers' Association reports that fringe benefits added 11%, nearly 15 cents per hour, to the payroll of its members in September 1948. The calculation of the actual value of these modern supplements and additions to wage rates is most difficult. Different workers appraise these benefits very differently and both their value and cost vary from time to time. Even most employers have only vague ideas as to the cost of their employee benefit plans, beyond the amounts currently being paid.

Still another very important contribution in recent years to a more realistic theory of wage determination has come from observing how unions act in collective bargaining negotiations. Unionists do not act as economic men might be expected to act. Even business unions are very different institutions from corporations and other business enterprises. Unions are not interested solely, and often not primarily, in the highest possible return to their members for their work. Survival of the unions as institutions and their prestige is frequently more important than the wage rate. Unions and their members do not coolly calculate what strikes will cost them in lost wages compared with the wage increase they may hope to gain. As they are dependent upon the continued support of their members they must ever satisfy them and under existing conditions of rival

5. The Economic Research Department of the Chamber of Commerce of the United States in its report, *The Hidden Payroll*, in May 1949, estimated the non-wage benefits of the typical American worker at \$424 per year or 20.5 cents per hour (15.4 per cent of payrolls). In contrast non-wage costs averaged only about 1 per cent of the wage bill in 1929.

unionism must take account of the policies of their rivals, no less than those of the employers.

Managers, too, are greatly influenced by the opinions and actions of their fellows. There is extensive resort to a follow-the-leader policy in wage determination-pattern bargaining as distinguished from industry-wide bargaining. Further, in their dealings, at least with individual workers, they are not as tough-minded economic men as often represented in the textbooks.

In pointing out these realities and still other important aspects of wage determination neglected by the older economists, the younger economists who have written recently on wage theory may be laying the groundwork for a truer and more practical theory. It cannot be claimed, however, that to date they have developed such a theory.

For certain analytical purposes, the old marginal productivity theory of wages still has a good deal of value. Keynesian wage theory contains an element of truth. The recent work in wage theory of the younger economists specializing in industrial relations has not only brought out very clearly the limitations of the older theories but contains some important suggestions of value for practical people. But the economists have no ready answer to the many practical problems of wage rate determination.

II. ARGUMENT FOR AND AGAINST WAGE INCREASES⁶

Economic theory. How far the economists are from being able to answer the practical problems of wage rate determination is perhaps most clearly indicated by the fact that economic theory is but seldom presented in arguments made by labor and management for and against wage rate increases. In all my experience as an arbitrator and mediator, I have never heard a reference to the value of the marginal product of the workers. Whatever may be the value of this concept for analytical purposes, the fact is that marginal productivity of the workers cannot be

6. Good discussions of the arguments actually used in collective bargaining for and against wage rate increases and the logic behind them include: Taylor, George W., *Criteria in the Wage Bargain* in *First Annual Conference on Labor* (New York University, 1948) 65-88; Reynolds, Lloyd G., *Labor Economics and Labor Problems* (1949) 373-396; Ross, Arthur M., *Trade Union Wage Policy* (University of California, 1948); Slichter, Sumner H., *Basic Criteria Used in Wage Determination* (Chicago Association of Commerce and Industry, 1947).

measured in dollars and cents and, hence, has no meaning at the collective bargaining table.

The Keynesian theory that high wages are necessary for a prosperous economy is nowadays often advanced by labor in appeals for popular support for demands for increases. It also gets into discussions at the bargaining table but far less importantly, as it is wholly unacceptable to the employers. As a practical consideration, it encounters the further difficulty that the theory does not say how high wages should be or whether present rates should be increased.

On the other hand, employers often refer to the danger seen by economists that wage increases may result in increased unemployment. So long as this argument is kept on an abstract plane, it leaves labor cold and, hence, has little effect. It is only through clear proof that a demanded wage increase will be ruinous to the particular company that workers or their representatives can be convinced that the increase is not in their own best interests.

Finally, employers and unions quote economists when their statements appear to support the position of the side making the quotation. But I doubt whether the other side is very much impressed. Instead of discussing wage demands in the terms used by economists and on the basis of their theories, labor and management in bargaining negotiations resort principally to arguments which both sides regard as having at least some validity.

Cost of Living. On the part of labor, no argument for wage increases has been more commonly advanced than that of the rising cost of living. This results, in part, from the fact that during the entire period since the unions gained recognition in the mass production industries, until recently, the cost of living was advancing. Quite clearly, unless wage rates keep pace with increases in the costs of living, real wages will decrease.

The strength of the cost of living argument for wage increases arises, also, from the fact that it is recognized to be a legitimate argument by employers. When cost of living indexes decline, employers point to the decrease as a reason for opposing an increase in wage rates and, if large, as a justification for wage reductions. They also use the cost of living indexes when these

indicate that wages have increased more rapidly than has the cost of living.

But neither unions nor employers generally have been willing to base wage rates on the cost of living. The unions object to such a tie because it does no more than to preserve existing standards. Our entire economy is geared to ever rising standards of living. So labor is not satisfied with static real wages, however much it may use the cost of living argument when this argument serves its purposes. Similarly, employers usually feel that productivity and the state of business should be given greater weight in wage rate determination than the cost of living.

This brings me to the General Motors contract of a year ago which provided for quarterly adjustments in wage rates in accordance with the fluctuations in the United States Bureau of Labor Statistics index of consumer prices in large cities.⁷ This is the series formerly known as the "consumer price index" and still is thus referred to popularly. What made this contract provision acceptable to the United Automobile Workers, C. I. O., was not only the 11 cents per hour wage increase, which the company put into effect immediately, but "the improvement factor," which the union counted on to offset any probable decline in the cost of living. Now that the decline has been greater than expected, there is a lot of grumbling among the workers and the rival United Electrical, Radio, and Machine Workers, C. I. O., which accepted the same settlement, is demanding a limit to possible decreases under the formula.

Productivity. On the part of management the most popular argument in wage negotiations is that of productivity. Management often takes the position that it cannot grant wage increases because output per worker has declined. As an alternative, it

7. The General Motors contract with the United Automobile Workers, C. I. O., entered into for a two year period in the spring of 1948, provides for a quarterly adjustment of wage rates by 1 cent per hour for each 1.14 point shift in the index of consumer prices of the United States Bureau of Labor Statistics. It also provides for a 3 cents per hour annual wage increase as an "improvement factor." Under this contract reductions in wage rates of two and one cent per hour were made in the first year, but these were offset at the end of the year by the three cents per hour increase allowed as the "improvement factor." For a criticism of this contract as a possible basis for wage rate determinations in other industries, see Reder, M. W., *The Significance of the 1948 General Motors Agreement* (1949) 31 *Review of Economic Statistics* 7-14.

wants to condition wage increases upon an increase in productivity.

Labor recognizes that there is a relation between wages and output. On occasions it uses productivity as an argument for wage increases, claiming that output has increased and that wages should go up proportionately. It is unwilling, however, to accept productivity as the sole criterion for wage adjustments.

The differences on this issue are in keeping with the fundamental positions of the respective parties. Management is keenly aware of the necessity of meeting competition. It must look upon labor services as a commodity it buys. For survival it needs must keep its unit costs low. So it insists that increases in hourly wage rates must be offset by equal or greater increases in output per hour. The unions, on the other hand, think of labor primarily, not as labor services, but as members who must be satisfied. Human beings must live and so costs of living loom larger in worker thinking than does productivity.

From society's point of view it is obvious that the source of wages is the value of the production. The only source from which, at least continued substantial increases in wages can come is increased production. Increased output, reduced unit costs, are clearly in the interests of labor no less than of the employers and of society generally.

Productivity, however, has serious limitations as a yardstick for determining whether there should be wage increases or how large they should be. A fundamental difficulty is that of measuring the increase in productivity; another, that of fairly allocating the increase to the several claimants for shares in the production.

Difficulties in measuring productivity arise from the multiplicity and complexity of products and from changes therein, as well as in methods of production. Attempts to measure productivity in terms of the value of the goods produced obviously must take account of variations in the price level. Physical units of output, also, are difficult to determine when there are many processes in production, which seldom remain exactly the same for long.

On a national basis the most widely accepted estimates of output per worker in given industries are those of the United

States Bureau of Labor Statistics,⁸ which are based upon extensive and costly field surveys. These always relate to some period in the past and cannot conceivably be entirely up to date. They have at times been under attack by labor and at other times from management. A conference called by the Bureau two years ago which brought together leading research men from both sides and executives who make use of the Bureau's indexes failed to develop even approximate agreement on the measurement of productivity. Through use of committees of technical advisers from both labor and management and emphasis upon the man hours going into selected physical units of production, the Bureau at the moment seems to be reasonably satisfying both sides with its productivity statistics. Whether this happy situation will continue should economic conditions change materially remains to be seen.

The applicability of national statistics on production to particular wage negotiations is extremely debatable. Economists who have studied productivity statistics over the years are pretty well agreed that output per worker over long periods in the past has increased by about 2 per cent a year. Sumner H. Slichter believes that, because of the great growth of industrial research in recent years, there will be a greater average increase in output per worker in the period immediately ahead than in the past—probably not less than 2½ per cent and perhaps somewhat more.⁹ But increases in total productivity vary greatly from year to year and still more from industry to industry. The use of national statistics of increases in output as guides to permissible wage increases in particular companies becomes very misleading. Output statistics for particular companies, also, but seldom are entirely satisfactory. Generally they come exclusively from management and for this reason are suspect by the workers. Clearly, also, they cannot be used as the sole determinant of wage rates, as this would mean wide variations among plants in the same industry, even within the same local labor market.

8. Output statistics are published in practically every issue of the Monthly Labor Review of the Bureau of Labor Statistics and in many of its Bulletins. They do not, however, cover anywhere near all industries. Information about these studies can be secured by writing to the Bureau of Labor Statistics, which is a division of the United States Department of Labor.

9. View presented in Slichter, *Less Spending, Threat to Stability* (April 14, 1949) *Commercial and Financial Chronicle*.

Output statistics, moreover, do not afford an answer to the \$64 question, who is responsible for variations in output. Because output in a particular plant has not kept pace with the national average may or may not be the fault of the workers. It may be due to the inefficiency of management, the inadequacy of capital, and a great variety of other reasons beyond the control of the workers. Or it may be a consequence of slowdowns, restrictions of production, or the inefficiency or lack of effort of the workers.

Management is never or but seldom willing to credit labor with all of the increase in output per worker. Often it argues that the entire increase is attributable to new machines or processes or to additional capital investment. Output does tend to vary directly with the amount of capital invested per worker. But increases in output cannot be ascribed solely to the investors. More competent management, greater intelligence of the workers, and genuine labor-management cooperation in production all have had a part in the great gains in output per worker in the United States, which far exceed those of any other country. I believe that some of the credit, moreover, is to be ascribed to social factors, such as the accumulated know-how of the American people, our democratic government and our economic system of free enterprise. Clearly, there is no generally accepted formula for equitably allocating savings resulting from increased production, as between consumers and producers, workers, managers, and security holders.

Production is a factor to be taken into account in wage rate determinations. Normally, all who are connected with a given industry or dependent upon it are entitled to a share in savings due to increased output. But productivity does not afford an exclusive or precise measure for wage rate determination.

Ability to Pay. In many respects, closely related to the question of productivity is that of ability to pay. When Walter Reuther advanced ability to pay as the union's principal argument in support of the Auto Workers' demand for a large wage increase by General Motors at the end of the war, this produced a great outcry in management circles. It is my belief that this outcry was provoked much more by special applications and inferences in Reuther's argument than by a feeling that it is illegitimate for labor to point to a company's profits as a reason

for wage increases. The truth is that unions have always argued that large profits justify wage increases. Certain it is that workers instinctively feel that they should to some extent share in the unusual prosperity of their employer. Employers have often recognized that this is equitable by distributing a part of the profits in bonuses. Very generally the most prosperous companies are the highest wage payers and take pride in such a record.

Employers, on their part, have never hesitated to plead inability to pay as a reason for refusing wage increases or even as an argument for wage reductions. When convinced that the claimed inability to pay is genuine, unions often have made concessions to such employers, allowing them lower wage rates than prevail generally in the industry or locality. Traditionally, both sides have used the profit and loss statement as an argument in wage negotiations when it seemed to give support to their position. They, moreover, have changed their positions with the exigencies of different situations. When unions have argued that high profits justified a wage increase, the employers have said that ability to pay is immaterial. When employers have argued inability to pay, the unions have taken the position that this is immaterial. But both sides have in fact often given weight to profits and losses in wage rate adjustments.

Neither side, however, is willing to let the profit and loss statement determine the wage level. To do so would result in wide differences in wage rates in the same industry and labor market. It would, moreover, lead to great fluctuations from year to year. It would often penalize the workers for poor management and tend to destroy the rewards of superior management.

Again there is a different approach on the part of labor and management to this issue, as there is to other considerations which come up in wage negotiations. Labor looks to the profits of the last year or of recent years. On the strength of past profits it argues for wage increases in the future. Management is concerned with future costs and expected profits. At this time, labor points to the large profits of corporations last year and throughout the post-war period. Management points to mounting costs and higher break-even points, which are likely to mean trouble ere long, particularly if economic conditions should become worse. Generally there is no meeting of minds

and, hence, little more to ability or inability to pay than an argument to which the parties, inconsistently, resort when it strengthens their case.

Comparative Wage Rates. At least until recently, given more weight than any other argument in wage negotiations are comparisons with the rates paid in other establishments, or, where internal rate structures are at issue, for other similar or related work in the same plant. Such comparisons are accepted by labor and management alike to be a legitimate and important consideration in wage rate determination.

Meaningful comparisons, however, are not easy to make. Particularly for the unions it is difficult to get accurate data on the wage rates paid in other establishments. Accurate information can come only from employers and they generally refuse to reveal this wage data to outsiders, including unions other than their certified bargaining agents, and sometimes not even to them. So unions in gathering wage data have had to rely on information given them by the workers in the plants with which comparisons are made. Such data is usually full of errors, because largely based on recollections.

A further great difficulty in wage comparisons between plants is that jobs, job titles, and job content vary greatly from plant to plant. It is natural to assume that people with the same job title do the same work. This, however, is not always or probably even generally true. Unless the greatest care is exercised to compare only wages for the same jobs, wage rate comparisons can be very misleading. The same result is produced if fringe benefits, supplemental to the wage, are either ignored or improperly evaluated.

Very commonly companies and unions cite a considerable volume of comparative wage rate data in negotiations. Employers get this data largely from trade associations or through inquiries addressed to other employers. Numerous private services supply such data to their employer clients, for a fee. Unions have a smaller number of such services to draw upon but often get some aid from the research departments of their international. All such comparative data is suspect by the other side and likely to be disputed. Bi-partisan surveys of comparative wage rates have sometimes been undertaken but only rarely.

The most reliable wage information is that gathered by the

United States Bureau of Labor Statistics, but this comes principally from special studies which are limited to relatively few industries and cover only key jobs. Most serious is the fact that the reports of the Bureau of Labor Statistics usually are not published until a year or more after the data has been collected. Wage statistics published by state labor departments generally give only averages and are almost unusable in wage negotiations.

What weight to give to comparative wage data is a matter of judgment. Unions often insist that the workers should be brought up to the highest rates for given positions paid by any employer. Only Henry Ford when he first gave a contract to the Automobile Workers was willing to accept such a standard. Employers normally will concede only that the general level of their wages should be on a par with that prevailing in the industry or community. It has been my observation, also, that most managements are convinced that their wages are well up with the general level and it is difficult by comparative statistics to convince them otherwise.

National Patterns. In recent years, wage increases, to a very large extent, have followed national patterns established in major negotiations. These patterns have been easily ascertainable and, hence, to a considerable degree have replaced comparisons in wage rates as an argument for increases. Aside from simplicity, however, they have little to commend them. They have tended to narrow occupational wage differentials and so have produced dissatisfaction among the skilled workers. They have also resulted in ignoring the peculiar situations and special problems of many employers and so have resulted in very unequal burdens. They have fostered inter-union competition in wage rate increases and have facilitated price increases absorbing the entire wage boosts.

The responsibility for the pattern wage adjustments we have had since the end of World War II, however, cannot be charged wholly to the labor unions. Many companies, especially suppliers, have refused to do their own negotiating and have held back in making any wage adjustments until the major companies have concluded their negotiations. Very generally employers who have made early adjustments have gotten off with increases below the pattern, but most employers have preferred to wait until the patterns have been set.

At that, it needs to be noted that there has been considerable deviation from the patterns of the first three rounds we have had since World War II.¹⁰ The pattern of the first round was the increase of 18½ cents per hour first agreed to by the United States Steel Corporation and promptly followed by all major steel, automobile, and electrical companies. A survey made by the United States Bureau of Labor Statistics in mid-summer 1946, months after the pattern of an 18½ cents increase had been set, however, disclosed that 21% of all employees in manufacturing had received no increase whatsoever since the close of the war; 15% more less than a 10 cents per hour increase; 38%, 10 cents but less than 18½ cents; 26%, 18½ cents or more. In non-manufacturing industries more than 48% of all workers had no increase at all and only 2.5% increases of 18½ cents per hour or more. Similarly, the Automotive and Aviation Parts Manufacturers, Inc., in June 1947 reported that nearly one-half of its members had made settlements for less than the 15 cents per hour "package" pattern of the second round of wage increases. Still less was the third round pattern of 11 cents per hour set in 1948 by General Motors slavishly followed in all industry. At present we are in the so-called "fourth round" of wage increases. The major companies have not even begun their negotiations and some of their unions have not yet formulated or announced their demands. A very large number of companies, however, have already reached agreements on the wage rates for the new contract year. These have varied all over the lot, from no increases whatsoever in textiles and in many clothing and paper companies, to increases of 25 cents per hour or more in some building trades settlements. The National Foremen's Institute, an employer service, has reported that the average, where increases have been granted, has been a little less than 10 cents per hour, but it notes that there appears to be little or no pattern in the settlements.

The net effect of the wage settlements since the close of the war has been an average increase for most workers considerably less than the sum of pattern settlements. Coal miners and building trades employees have gotten increases greater than those of the pattern settlements, employees in the smaller manufactur-

10. The figures presented in this paragraph are mainly from the article: *Money and Real Earnings During Defense, War, and Reconversion Periods (1947)* 64 *Monthly Labor Review* 983-996.

ing establishments and in such industries as insurance, telephones, and light and power companies considerably less. In all manufacturing industries, wage rates increased 43% from September 1945, the first month after close of the war, to October, 1948; hourly earnings, 38%; weekly earnings, 33%. In the same period the consumer price index for large cities rose a little less than 35%. The increase in weekly earnings was a little less than the rise in the consumer price index, but spendable income was greater, due primarily to the decrease in taxes. In non-manufacturing industries grouped together, the increases in wage rates and earnings were relatively greater than in manufacturing industries, although average earnings are distinctly lower.¹¹

It is my belief that patterns set by the major companies are likely to be a less important factor in wage settlements in the period immediately ahead than they have been since close of the war. In an economy of widespread shortage of goods and high purchasing power, employers have found it an easy matter to shift wage increases to the consumers. Even marginal firms have been able to show profits or at least avoid bankruptcy. In such a situation it was but natural that unions should fairly rigidly try to hold all employers to the pattern increases and attempt to get as much of an increase as other unions had won. In the situation we are in now, where price reductions are far more common than increases, where most markets have again become truly competitive, and bankruptcies are rapidly increasing, employers, particularly in the less prosperous firms, can be counted upon to resist wage increase much more determinedly than in the recent past. Unions too, I expect, will make concessions rather than exacting "their pound of flesh." Workers want wage increases when they can get them, but they want employment even more. If they understand the situation they will not consciously force their employers to the wall. As economic conditions become tighter, moreover, the influence of the local unions in wage determinations is likely to again become greater, while a boom period is favorable to the development of greater centralization in unions, no less than in industry.

11. This paragraph is based on the indexes of the United States Bureau of Labor Statistics. A convenient summary is: *The Labor Year in Review* (1949) 68 *Monthly Labor Review* No. 2, particularly at pp. 158-165.

What It Takes to Effect a Settlement. All criteria for wage rate determinations which have been discussed are arguments, which at times are used by one side and at other times by their opposites, rather than reliable standards which can or should be followed in all cases. This has led Professor George W. Taylor, the man who as Vice Chairman and later Chairman of the National War Labor Board had more to do with the development of the wage stabilization policy of wartime than anybody else, and who has had wide experience as a labor arbitrator, to suggest that the best criterion for wage determinations is "what it takes to settle a strike or prevent a strike."¹² This standard brings in all of the other criteria suggested, as well as still others. How much weight is to be given to any of them will vary with the time and situation.

One important element in the logic of such a standard is that strikes are generally much more costly than the resulting gains to either side. The dollar and cents cost of strikes, of course, is not the only consideration of the parties when, as so often happens in the last minutes of bargaining negotiations, they must decide whether they would rather take the costs of a strike or make the concession which would prevent or settle a strike. Both sides, at times, deem other matters more important than the economic costs. But people who have had experience with strikes know that they involve great costs and risks, which it is generally preferable to avoid, if possible.

Further, such a criterion squares well with a policy of free collective bargaining. In recent years all groups in labor and management have acclaimed free and unrestricted collective bargaining. Encouragement of collective bargaining, moreover, is our national policy, even under the Taft-Hartley Act.^{12a} Nearly everybody at least professes that he wants the government to stay out of labor relations, as much as possible. In relation to wage determination that means a free hand to the parties to arrive at settlements as best they can.

12. Developed by Professor Taylor in: *Can Wages be Left to Collective Bargaining in Wages, Prices and National Welfare* (University of California, 1948) 32-47, and in his *Labor-Management Relations in the Days Ahead* (University of Wisconsin Industrial Relations Center, 1948).

12a. Labor Management Relations Act (1947) 61 Stat. 136, c. 120, 29 U. S. C. A. §§141-144, 151-167, 171-182, 185-188, 191-197, Title 50 App. §1509.

The Public Interest. Wage rate determination on this basis presents some difficulties and dangers. One of these is inequality of bargaining power. When one of the bargainers has overwhelming power, an unfair bargain is likely to result. Another danger when wage determination is left to free collective bargaining is the possibility of collusion between the parties. Collusion results in higher prices to consumers than they would otherwise have to pay.

That these dangers exist cannot be said. Collective bargaining functions best when there is something like equality of bargaining power. While that situation cannot be said to exist in all industries, we probably are closer to equality of bargaining power between management and labor today than earlier in our history. The assets and income of our largest unions are far less than those of our large corporations but through their hold upon the loyalties of many thousands of workers they have attained a withholding power as great as that of management. In some industries, the shoe is now on the other foot. Small employers often are not a match for the unions with which they must deal. Through associational bargaining, however, they can offset the advantages combination gives the workers. In an economy of free enterprise, moreover, abuse of power tends to correct itself ere long.

The danger of possible collusion between management and labor at the expense of the consumers has given much concern to many theoretical economists. The public generally and, I think, more realistically has been much more worried about failure of the parties to agree than about the dangers of collusive agreements. Strikes have been far more costly to consumers than all collusive wage agreements.

There have been some collusive agreements which have resulted in the public's having to pay more than it should for some goods and services. These have been principally in small segments of the economy and especially in industries where labor costs are but a small part of the total costs. When unions agree with businessmen to rig prices they are now subject to prosecution under the anti-trust laws. If these laws are not adequate to reach all types of collusive agreements, they should be strengthened. But to me the costs and risks of allowing the

parties a free hand in wage determinations seem to be far less than those involved in governmental control.

Nor is the fact that wage increase have often been followed by equal or greater price increases a valid argument against wage rate determination through free collective bargaining. Wages are a cost of production which in the long run will be reflected in prices except as offset by increased productivity. But there are many other cost of production besides wage costs; moreover, "competition, business policy, and public policy all add to or subtract from the cost figures to produce selling prices, which individually show widely varying relationships to costs."

Wage increases were not the sole nor the basic cause for the great increase in prices which followed the close of the war and the abandonment of price controls. As Alvin Hansen has developed, the basic causes were "world wide scarcity of food, the overall excess of aggregate demand in relation to the available supply of commodities," the wartime consumer savings, and the temporarily very great "demand for construction, productive equipment, and inventory accumulation."¹³ Because these temporary post-war conditions have all changed, we are now at a stage where wage increase are likely to have very different effects than they have had in the recent past. It is because employers now cannot readily pass wage increases on to the consumers, that such increases are going to prove a good deal more difficult than they have been.

There is much to be said for an economy, such as we have had in the past, in which the fruits of increased productivity have largely gone to the active producers as wage increases and higher pay for management, rather than to non-active consumers in the form of price decreases. Wages can increase too fast to maintain a stable economy. But wage increases stimulate technological progress, which is the cornerstone in the American way of attaining ever rising standards of living for all our people.

In weighing the advisability of the policy of allowing the parties a free hand in determining wage rates through collective bargaining, possible alternatives must be considered. There

13. Perspectives on the Wage-Price Policy, in *Wages, Prices, and the Public Welfare* (University of California Institute of Industrial Relations, 1948) 1-8.

seem to me to be only two basic alternatives, arbitration and governmental wage rate determination.

I believe in voluntary arbitration. Every dispute arising while the contract is in effect over the meaning and interpretation of its provisions which the parties cannot resolve between themselves should be settled by arbitration. I hold the view also that generally arbitration is preferable to strikes when the parties cannot agree on contract terms. But the results of arbitration seldom are as acceptable to the parties as are agreements arrived at directly by them.

When arbitration is imposed, rather than agreed upon between the parties, the results are likely to be even less satisfactory. When collective bargaining fails in critical situations, the government may have to dictate the terms of settlement. But governmental determination of wage rates is inconsistent with an economy of free enterprise. Whatever may be the shortcomings of wage rate determination through free collective bargaining, it is vastly preferable to any practical alternatives, at least so long as it normally results in settlements without too many strikes.

The Present Situation. Concluding, let me make these few comments about the present situation. Major contract negotiations, affecting pattern setting companies, are about to begin. Labor is demanding large wage increases, plus costly "fringe benefits" in the form of retirement pensions, and health and welfare funds, or increases in such benefits. There is a widespread belief that labor is making the wage demands largely as trading stock to gain the employee benefits it seeks for its members.

At the moment, it is not certain whether employers regard the demanded wage increases or the employee benefits with greater concern. Far more than they have been, they are now conscious of the costs of employee benefits. They also realize that once they become partners with the unions in providing employee benefits their costs are almost certain to increase with the lapse of time. Further they are becoming aware that union-sponsored employee benefit programs, even if jointly managed or administered by an insurance company, will attach the workers more irrevocably to the unions than ever before.¹⁴

14. Some of the problems arising out of joint pension, health and

But the employers are in a weak position, at least logically, to resist the union demands. They have established very adequate pension systems for their executives and many other benefits much more liberal than are now being sought for the production workers. They have resisted more adequate social security benefits. In this day and age economic protection must be afforded for the growing number of our older people, as well as in cases of unemployment or prolonged sickness. At the present time such protection can be provided either through contributory social insurance systems through employee benefit plans financed largely by the employers, or ever increasing relief expenditures. Either a reversal of employers' attitude on social security or the concessions on the unions' demands for employee benefits would seem to be called for.

But as I have developed, logic is not necessarily determining in wage negotiations. Your guess as to what will happen is as good as mine. It is clear only that we have come to a major turning point in wage rate determination.

welfare plans were discussed by the author in his address on "Trends in Payment for Medical Care" at the Midwinter Personnel Conference of the American Management Association, at Chicago, February 1949. This address has been published by the American Management Association, in its *What's Ahead in Employee Health and Pension Planning* (Personnel Series No. 126), 25-33.