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# THE ECONOMICS OF COLLECTIVE BARGAINING

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*Proceedings of a Series of Public Lectures  
Held during 1948 and 1949 in  
Berkeley and Los Angeles*

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## INSTITUTE OF INDUSTRIAL RELATIONS

**FEW AREAS** in the domestic social life of the nation are vested currently with greater public concern than the field of industrial relations. The development of better relationships between organized labor and organized employers, and the integration of these relationships with the interests of the individual citizens and the nation as a whole, constitute one of the most serious problems facing our economic and social system today.

The Legislature of the State of California expressed its desire to contribute to the solution of this problem when, in 1945, it established an Institute of Industrial Relations at the University of California. The general objective of the Institute is to facilitate a better understanding between labor and management throughout the state, and to equip persons desiring to enter the administrative field of industrial relations with the highest possible standard of qualifications.

The Institute has two headquarters, one located on the Los Angeles campus and the other located on the Berkeley campus. Each headquarters has its own director and its own program, but activities of the two sections are closely integrated through a Coordinating Committee. In addition, each section has a local Faculty Advisory Committee, to assist it in its relations to the University; and a Community Advisory Committee composed of representatives of labor, industry, and the general public, to advise the Institute on how it may best serve the community.

The program of the Institute is not directed toward the special interests of either labor or management, but rather toward the public interest. It is divided into two main activities: investigation of the facts and problems in the field of industrial relations, which includes an active research program and the collection of materials for a research and reference library; and general education on industrial relations, which includes regular University instruction for students, extension courses, conferences, and public lectures for the community.

# *The Economics of Collective Bargaining*

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EDITED BY  
CHARLOTTE KNIGHT

PRESENTED BY  
INSTITUTE OF INDUSTRIAL RELATIONS  
IN COÖPERATION WITH THE  
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# CONTENTS

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Foreword . . . . . vii

THE ECONOMICS OF COLLECTIVE  
BARGAINING

WALTER P. REUTHER, President, United Automobile  
Workers of America, CIO . . . . . 1  
Lecture: Berkeley, November 30, 1948

WAYNE MORSE, United States Senator from Oregon . . 16  
Lecture: Berkeley, December 6, 1948; Los Angeles, December  
8, 1948

SUMNER H. SLICHTER, Lamont University Professor,  
Harvard University . . . . . 30  
Lecture: Los Angeles, January 21, 1949

EDWIN G. NOURSE, Chairman, Council of Economic Ad-  
visers, Executive Office of the President . . . . 46  
Lecture: Berkeley, March 1, 1949

WALLACE F. BENNETT, President, National Association of  
Manufacturers . . . . . 63  
Lecture: Berkeley, May 13, 1949

MAURICE J. TOBIN, United States Secretary of Labor . . 76  
Lecture: Berkeley, May 16, 1949; Los Angeles, May 18, 1949

WILLIAM GREEN, President, American Federation of Labor 88  
Lecture: Berkeley, June 9, 1949; Los Angeles, June 13, 1949

W. WALTER WILLIAMS, Chairman of the Committee for  
Economic Development and President of Continental,  
Inc., Seattle, Washington . . . . . 98  
Lecture: Berkeley, July 27, 1949

# FOREWORD

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*EACH YEAR it has been the practice of the University of California to sponsor a series of lectures on some aspect of industrial relations. During the past year the subject has been the Economics of Collective Bargaining. The men whose views appear in this volume have each a special contribution to make. In one sense the roster of speakers may appear to be very heavily weighted with "practical" men. Even the two professional economists have a special claim to the term. Mr. Nourse occupies a central role in the formulation of those government policies which are concerned with wages, prices and employment and which therefore lie close to the heart of the economics of collective bargaining. Professor Slichter has so large an influence that he cannot escape the role of a practical man.*

*Mr. Reuther and Mr. Bennett, Mr. Williams, and Mr. Green speak with special authority since their views have, in addition to the persuasion of their own logic, the force of organized group support. Industrial relations differ from physics in that men and organizations sometimes have it within their power to alter the "laws" by which they are bound. The nature of their views becomes one of the important determinants of the environment which they describe and interpret.*

*As power becomes more concentrated and as markets grow less "free," the role of government as a regulator of group power grows larger. Senator Morse and Secretary Tobin are particularly suited to speak on the proper and improper exercise of this power.*

*A very large part of the field of industrial relations must lie within the boundaries which are established by the viewpoints of the participants in this lecture series.*

CLARK KERR

Director, Northern Division  
Institute of Industrial Relations

EDGAR L. WARREN

Director, Southern Division  
Institute of Industrial Relations

# Walter P. Reuther

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WE ARE LIVING in a period of great decision. Free men and free institutions all over the world are being challenged by forces that threaten our liberty today just as much as the forces that we fought during the war. The forces that we fight today, however, are less tangible and therefore, much more difficult to deal with. In this fight, the American economy is freedom's greatest asset. What we do with the American economy in the next twelve or eighteen months, how intelligently we organize and mobilize its productive potential, and how we distribute that production both at home and abroad, may be the decisive factors in determining whether this time we shall win the peace or whether we will again throw away our opportunity as we did in the years following 1918. In this decision labor and management have a joint responsibility. What we do with the American economy hinges largely upon what labor and management do with what we call the economics of collective bargaining. If labor and management do a rational and intelligent job, if they meet their joint responsibilities in terms of over-all broad interests, then the American economy can be geared to meet this challenge.

## NEED TO MAINTAIN FUNCTIONING DEMOCRATIC PROCESSES

We're living in a sick world. Millions of hungry and desperate people all over the world look to America for the answer to their problems. They are looking for an answer to a very simple but fundamental question. Is it possible in the world today to achieve economic security and material well-being without spiritual enslavement? Our challenge in America is to prove not only that freedom and bread are compatible, but that they are equally desirable. We can prove this by demonstrating that American democracy has the moral strength and the practical economic and political know-how to make democracy work. Democracy must not be an abstract governmental concept. It must be a dynamic force that functions 365 days in the year and which comes to grips with the basic problems of the people and finds a solution to these problems. The answer in the world and the answer in America can be found neither in the formulas of Fascism or Communism or any other kind of totalitarianism. Totalitarianism of all varieties offers the people of the world economic security at the price of freedom. Hitler and Stalin, and all of the dictators promise to "put bread in your stomach at the price of putting your soul in chains." Neither will the answer in America be found

in going back to the narrow, stupid, selfish Wall Street economics of monopoly and scarcity that led to the bust of 1929. Communism and Fascism operate on the false premise that material security for the average person is possible only if he surrenders his individual freedom.

Irresponsible laissez-faire monopoly capitalism operates on the assumption that if the average person is given freedom, then economic opportunity and material security are automatically within his reach.

Both claims are morally and economically wrong. The answer must be found by developing the democratic tools, by developing the social mechanisms through which we can assure that we will mobilize our economy, realize its potential, and gear that potential and that abundance to the people's needs. Some people were surprised on November 3rd, because they believed the election was all in the bag. The people who were surprised were those who were blind to the forces that were at work in America and who did not understand the social dynamics of a democratic people. My theme in Portland last week was interpreting the outcome of the election, and I said that while a certain candidate was up in the stratosphere talking about noble generalities, the people were thinking about issues. An automobile worker in Detroit said to me, "You know, the boys in the factories are going to turn out on election day and they're going to vote for President Truman because he's talking about the *issues*, and the fellows in the shop are worried that unless we get a Congress and Administration in Washington that will fight to enact legislation to deal with the basic problems in America, we're going to have another depression."

I used to tell a story about what took place in Detroit back in 1930, '31 and '32. There were tens of thousands of hungry unemployed auto workers in Detroit. They were desperate and without hope. At that time we were building a zoo in Detroit. They took up a collection in the Detroit Public Schools because the school children wanted to make a contribution; they wanted to feel that they were helping to build this zoo, and they gathered a few pennies here and there and finally they had enough money to hire a scouting party which they sent up into the northern woods of Michigan. A notice appeared in the paper that the party was on its way to northern Michigan and the school children were all excited. Two weeks later a notice appeared that the scouting party had captured a big seven-foot black bear and it was being shipped to Detroit to be put in the zoo. On the way down to Detroit something very tragic happened—the bear died. When the bear arrived in Detroit, the Director of the Detroit Zoo, Mr. McClelland, looked at this bear and he thought, "This is really tough. If I tell the children that the bear died it will break their little hearts." So he pondered the question and he finally got a very bril-

liant idea. He went down on Michigan Avenue, two blocks from the City Hall, where every day tens of thousands of hungry unemployed auto workers lined up to get a handout. He looked over the line and picked the tallest and huskiest unemployed auto worker. He tapped him on the shoulder and said, "Would you like a job?" And the fellow grabbed him and said, "I'll do anything." And the Director of the zoo said, "This is a rather unusual assignment." The worker repeated, "I'll do anything."

So the Director took him out to the zoo, and they skinned the bear; they put this unemployed auto worker in the bear's skin, they sewed it up the back, and put him in a specially constructed bear cage. He learned to swing on the bars, and, just like an automobile worker, did the same thing over every day until he got very efficient.

After a couple of weeks, the Director of the zoo thought he was ready for the children to come out and see the bear. So each day they would have an excursion, one school one day and another school the next day. One day there was a joint excursion and the fellow in the cage was just surrounded with enthusiastic children. For the first time he decided to go up on the top bar and do the "loop the loop." When he got up on the top bar, he started to swing, and the harder he swung the louder the children cheered. Finally, he got up enough momentum and decided to give a terrific heave and go over. He gave it everything he had. Just as he got up on top, his hand slipped and he flew over into the lions' den; he landed right in the middle of a pack of lions! He started to holler, "Oh, Mr. McClelland, help, help, save me, save me!" A great big male lion jumped on his chest and looked him in the eye—he again hollered, "Help! Help! Save me! Save me!" and the lion said, "Shut up, you fool, I'm on relief myself."

Back in Detroit, the people share the same feelings as people everywhere else in America. We didn't fight a war that cost so heavily in human and material values to go back to that sort of thing. We fought a war to give free men a new opportunity to go forward, to create the kind of world in which people can have happiness and security. In the growing tension of the cold war the forces behind the Iron Curtain know that they can't defeat us. When Joe Stalin sits down with the Politburo, he knows that he can't take America on and beat us head on. He's sitting back, dragging his feet, creating all of the side issues possible because he believes in time we will make the fatal mistakes that we made back in 1929. Another American depression is Stalin's ace in the hole—it is the Cominform's secret weapon in its plan of world conquest.

In the midst of the chaos and confusion of depression and economic collapse in America, Stalin counts on our return to isolationism, and on our withdrawal from Europe. Whereupon the Communists are prepared

to move in to fill the vacuum created by our withdrawal. We must block Stalin's master plan by checking the drift toward depression.

We're heading for economic trouble in America. The 1948 election didn't change the dangerous drift. It just gave us the opportunity to make a change. We're heading for trouble in America for the same reasons that we got into trouble in the period that led to 1929 and those dark years. We're heading for trouble because our economy is seriously out of balance. The next time we have a major economic catastrophe, we may lose more than our jobs, and our homes, and our farms, we may lose our freedom. We're heading for trouble because of the imbalance between wages, prices and profits. Unless we get wages, prices and profits back into some reasonable relationship through collective bargaining, we are going to continue to drift toward depression. Maybe the ERP program—the fact that we spent thirteen billion dollars for armaments during the year of 1948—will delay the coming of a depression, but it will come unless we take positive corrective action.

The only answer to the problem is to get a balance between wages, prices and profits so that purchasing power in the hands of the people balances our economy's productive power. This is the core of the problem that we must face when we talk about the economics of collective bargaining. I want to talk tonight about some basic principles which I think labor and management must keep in mind as they discharge the responsibilities they have to the people of our nation.

#### BASIC PRINCIPLES OF COLLECTIVE BARGAINING

##### *1. Relationship between Free Management and Free Labor*

The first basic principle labor and management in America must realize is that freedom, like peace in the world, is indivisible; that you can't have free labor without free management, and you can't have free management without free labor. It would be helpful for some of the industrialists in America who think they can go back to the period before we had powerful industrial unions—when they could arbitrarily dictate the economic terms by which workers were to sell their labor—if they could sit down and talk with Mr. Fritz Thyssen, the great German industrialist, who along with his associates financed the Hitler movement. (I was in Germany when Hitler came to power; I was in Berlin the day the Reichstag burned, although I hasten to say that I had nothing to do with the fire.) Fritz Thyssen and some German industrialists (and I talked to them during the early period of 1933) believed that they could finance and get into motion antidemocratic forces that would destroy labor and other liberal democratic forces; then at a predetermined time, those antidemocratic forces would stop short of the destruction of the

freedom of the people who owned the German cartels and the German monopolies.

Mr. Fritz Thyssen had a long time sitting in the concentration camps to realize the folly of his position. The world has learned at tragic cost that when you release antidemocratic forces in the world, you either destroy those forces or they destroy freedom in the world. We in America who share a full measure of freedom must realize that freedom is not a luxury to enjoy like a new Easter hat or a good steak dinner. Freedom is a weapon to fight with; freedom is a tool to build with, and freedom is indivisible. Either all people are free or no one's freedom is secure. That, I think, is the first basic principle that labor and management have got to realize.

## *2. Significance of an Economy of Abundance*

Secondly, we've got to realize that abundance, not scarcity, is the key to a higher standard of living. The world gets in trouble when you divide the nations of the world between the "haves" and the "have-nots." People get in trouble with one another when the citizens of a democratic nation are divided between the "haves" and the "have-nots." If we continue to divide up scarcity in the world, then we commit ourselves to the "have" nations and the "have-not" nations, and to the "have" citizens and the "have-not" citizens. But when we divide up abundance, there is enough for everybody, and that is the key to this question. We've got to create abundance; we've got to break the monopolistic strangle holds which arbitrarily restrict the achievement of maximum production in America. At a hearing months before the Taft-Hartley Act was passed, I stood before the Senate Labor and Education Committee while Senator Taft was chairing that committee; we got into the economics of the situation. I told Senator Taft that all the legislation that they might dream up down there would not solve the basic problems in America until we began to deal with the question of wages, prices, and profits. I pointed out that if they wanted to do something to bring about industrial stability and labor-management peace in America, they should go to work and give us effective price controls, and other things that would relieve the economic stress of the American people.

It's a matter of official records what Senator Taft said. He said, "It's just a matter of a couple of months and we'll be over the inflationary hump because the goods are going to be piling up, and when the production rises get to that point, it will begin to depress prices, because the law of supply and demand will begin to make itself felt."

That's all very lovely. When you study economics in a university, they tell you how the laws of supply and demand work in a free economy;



but we don't have a free economy because there are vital segments of the American economy that are not free, in which monopoly has control, and in which arbitrary decisions are substituted for the law of supply and demand.

I happened to have been on a radio program three days before I was shot. On the program called "The People's Program" (it's a Columbia Network program) Senator Taft and I were talking about economics. I read the record back to Senator Taft—where he had said that the production would go up and the prices would come tumbling down. Then I gave him some figures which I had clipped out of the *New York Times* on the cotton and textile industry. Cotton is a basic commodity; everybody needs cotton textiles. I showed him that his kind of economics was not working in America because of monopoly control. I showed him that when the textile industry began to achieve higher levels of production, prices should have started down; but the people who control the textile industry arbitrarily cut production and increased prices. I gave him these figures: In the year following the abolition of OPA, the textile industry reduced production by 9 percent and increased prices 17 percent. In the woolen industry, they cut production 10 percent and increased prices 14 percent. In the shoe industry did they permit higher production to push prices down as Senator Taft said they would? They cut production by 15 percent and they increased prices 38 percent. That's what is happening to the American economy—because our economy is not free.

They say it's a free enterprise economy, but large segments of it that are monopoly controlled. They are neither free, nor are they enterprising. They base the decisions as to what level of production they are going to operate, not on the needs of the people, but on whatever level they can get the greatest amount of profits out of the American consumers.

### *3. Significance of Establishment of Economic Facts as the Basis of Economic Decisions*

The third basic principle is that economic decisions must be based upon economic facts and not based upon economic power. We talk a great deal about the Iron Curtain. I want to tell you that the Iron Curtain Joe Stalin has built in Eastern Europe is nothing compared to the economic Iron Curtain that American industry puts around the basic facts of its profits and its effects on the economy of America.

We cannot intelligently or rationally find the proper balance between wages, prices, and profits unless we know all of the pertinent facts. You can't have collective bargaining with one side of the table blindfolded, nor can you achieve a rational solution to problems if you work within

an economic vacuum. Yet as long as industry is not willing to lay all the facts on the table so that you can make a decision based upon facts, they, by their unwillingness, commit collective bargaining to the laws of the jungle, where the decision will be made based upon economic power—whoever can get the biggest club and swing it first. And, of course, labor is penalized when it must resort to economic power, and the community is penalized. Collective bargaining becomes a battle between competing economic pressure groups instead of a rational, intelligent approach to economic problems.

The General Motors case was a classic example. We negotiated with General Motors for many, many months. We said in those negotiations that we were not interested in merely getting more dollars in the pay envelopes of the General Motors workers, but what we were fighting for was more purchasing power. The number of dollars that a worker takes home at the end of each week is unimportant. The important thing is what can he buy with the dollars he takes home? We said, therefore, we don't want more dollars if the greater number of dollars in pay envelopes are going to mean higher prices. If we get a wage increase on the one hand, offset by a price increase on the other, we don't get more purchasing power; we just step up the economic merry-go-round where wages chase prices and never catch up with them.

What we want is a wage increase that does not reflect a price increase. We want that wage increase out of the profits of the industry, because we believe that a larger portion of the wealth created in these factories ought to be reflected in increased purchasing power in the hands of the consumers. And we said to them, "Let's sit down, like rational, intelligent citizens who have a joint responsibility to the workers and to the community. Let's try to take the facts and find an answer." They said to us, "Why don't you fellows quit trying to act like labor statesmen? What do you care about the prices? Let's make a deal. We'll take care of the prices; that's our business."

We said, "No. We can't solve our problem if we take that narrow stupid approach, because labor is such an important segment of the total community that we can't expect to make progress at the expense of the community. We want to make progress with the community." Despite that sound position we took, we got nowhere. We were still bargaining across the table. The plants were still operating, workers were getting impatient. We made a final effort to resolve the dispute on a rational basis—using economic facts and not economic power to decide the question.

We proposed to the General Motors Corporation that we arbitrate the matter, that both parties pick an impartial arbitrator; that those

two people pick an impartial chairman, and that they be vested with final authority to make a decision. We wrote into the arbitration proposal that if the Board of Arbitration found that our wage demand could not be granted without a price increase, even if it only meant one cent per car, they could scale down our wage demand and cancel it out completely. General Motors Corporation turned that down because they said that they would not accept the principle that prices had anything to do with wage negotiations. Now you see, that's the kind of blindman's buff approach to collective bargaining which gives you no choice but to revert to the law of the jungle and get a decision based upon economic power.

When this matter, at the end of about two and a half months of striking, went before a Fact-Finding Committee set up by the President of the United States, General Motors refused to appear before the committee in Washington to testify because they said, "The facts have nothing to do with this issue. This is a matter of making a deal with the union."

I make that point about the economic facts because, as we move ahead in America—and we are moving ahead—this question will come up time and time again in basic contract negotiations.

Young Mr. Henry Ford said the other day somewhere in the East, that a fourth round of wage increases was inevitable, and I agree with him. That again raises the whole question. How are we going to approach the wage question in the months ahead? Is it going to be by the old formula of economic power, or is it going to be on an enlightened formula based on the economic facts? People who have a case, who can build a logical, reasonable, intelligent case in support of their position, can afford to rest on the basis of facts. People who are afraid to meet us on that basis will want to do otherwise. But, to the people of America, collective bargaining is not a private matter between labor and management. Collective bargaining is the people's business because their interests are inseparable from collective bargaining.

I'd like to just say a few words about some of the facts which we've got to get and which we've got to make people in America understand. I think that one of the really serious problems in America is the economic illiteracy that prevails. More and more people are called upon to make decisions which are economic in character, and unless they've got some basic set of facts in their minds, they can't make intelligent decisions. I throw out these figures to give you some idea of the things that we've been talking about.

The NAM would like to go back to the year 1929 because that was the end of the Golden Era in America when the boys in Wall Street were

basking in perpetual economic sunshine. There was no government in business. There was no New Deal—and the CIO wasn't even a twinkle in Phil Murray's eye. Industry had it all its own way and we got into trouble. We got into trouble because our economy was creating more wealth than the people had purchasing power to buy back. What were the profits in those days? Well, in 1929 American industry made eight and four tenths billion dollars in profits after taxes. In 1947, American industry made seventeen and a half billion dollars after taxes. In 1948, based upon the reports up through the third quarter, American industry will make more than twenty billion dollars after taxes. They will make two and one half times the profits that they made in 1929. And we got in trouble in 1929 because too large a segment of the wealth created found its way into the profits; and too little found its way into the consumer's hands through wages and purchasing power.

Let's talk about the auto industry. The auto industry may sell you a Chevrolet, but they charge you Cadillac prices because they're making Cadillac profits. Eight corporations in the auto industry, excluding the Ford Motor Company, in 1947 made \$775,000,000 in profits before taxes and they made \$448,000,000 after taxes. Now when you cite round profit figures to industry representatives they always get irritated, and say, "Round figures don't mean a thing."

If we take these eight corporations, they made on their total investment in 1947, before taxes, 38 percent profit in one year. They made, after taxes, 22 percent profit on their investment. Based upon the profit figures for the first three quarters of 1948, they will make 33 percent profit on their investment after taxes. That means in three years they get it all back and they still own it. Not a bad arrangement!

In 1947, the Chrysler Corporation made, before taxes, a return on their investment of 41 percent; after taxes, 25 percent. But you see, the American people have been so propagandized that they don't know some of these things.

The workers in America were given wage increases. Every time they got a wage increase, the NAM started its propaganda campaign. The American people got the most highly concentrated propaganda diet in their history. And this is what the manufacturers did: they gave a worker a dollar increase in one pocket and they took three dollars out of the other pocket through higher prices and blamed the worker for the higher prices. In the basic industries in the year following OPA destruction, for every dollar they gave wage earners in the key industries in America, they upped the prices three dollars.

Let me show you what happened to the wage-price relationship last year in the auto industry. Five automobile companies, the major com-

panies, again excluding Ford, in the third round of wage increase gave the workers in those industries \$153,000,000 in wage increases, and they upped the prices to the tune of \$582,000,000. This is four to one. Now I insist that when we sit down across the bargaining table with the big automobile corporations, we've got to talk about this kind of facts as a basis of arriving at a wage agreement. There's no other way to do it. You can't talk about wages without talking about profits, and you shouldn't talk about wages without talking about prices, because wages, prices, and profits are all tied together in one economic package. Of course, if we just take the position that we will get ours and let the public be damned, then we just step up inflationary forces that ultimately will destroy our economy and threaten our freedom and our security.

In our industries, for example, if we go back and try to establish the purchasing power our workers had at the time that OPA was abolished, it would take 15 cents an hour to get us back to June 1946. If we tried to reestablish the purchasing power that we had at the peak of war production in 1944, it would take 43 cents added to the hourly rates in the auto industry. Now these are facts that nobody can deny. The tragedy today is that people in America, because of high prices, have exhausted their reserves; if we get into a period of economic dislocation and unemployment hits us, it can pile up into serious proportions quickly because there is no cushion of savings to absorb the shock. Last year, according to government figures, 25 percent of America's families were already spending more than their incomes. Some people can say, "Well, the big dividends, the big profits will help because they get spread among American people too."

General Motors officials will say we have 400,000 stockholders. That sounds very impressive, but the DuPont family has 11,000,000 shares of General Motors stock. One-half of the total dividends of all American corporations went to 61,000 persons in America.

In 1947, 5,000,000 families at the top of the economic pyramid had an income of 64 billion dollars and 30,000,000 families at the bottom of the economic pyramid had an income of 59 billion dollars. So 5,000,000 had more than 30,000,000. It's the same old problem of the many having too little because the few had too much.

In a radio debate with Senator Taft I said, "You're making the situation worse. Everything you do down here in the 80th Congress makes it worse." He answered, "That's not so." Then I replied, "Let's look at the tax law that the 80th Congress passed. What did it do? If you have a family of four and your income was \$2,500, the 80th Congress gave you a \$69 tax reduction. If there were four in the family with an income of \$250,000, the 80th Congress tax law gave a tax reduction of \$34,700.

You see it's the old Republican shell game. If you've got too little they give you a \$69 tax saving, if you've got too much they give you \$34,700."

The Republicans paid for that mistake. They paid for it because the American people were of the opinion that the Republican 80th Congress was more interested in giving a few people penthouses and yachts than in giving many people a decent house to live in, and security and educational opportunities for their children.

#### *4. Industrial Peace Based on Economic and Social Justice*

The fourth basic principle is the question of how industrial stability is achieved in a free society. I told the Senate Committee on Labor and Education that labor-management peace in a free society could be achieved only as the by-product of economic and social justice; that in a police state you can get industrial peace without justice, but in a free society you cannot get industrial peace without justice; that industrial peace will come only when the great mass of workers has achieved that degree of economic and social justice which they think is compatible with the kind of economic productive power that a free society possesses. If you attempt to get free men to accept stability without justice they will revolt.

I told Senator Taft and Senator Ball in committee that the Taft-Hartley Act would fail because it's a negative approach to problems that require positive solutions. You can't pass a law and stop a man from fighting to get a decent roof over his family's heads. You can't pass a law and stop a man in his struggle to give his kids a better life than he's had. You can't pass a law to stop a man from trying to give his children greater educational opportunities and a chance to grow up culturally and spiritually, strong in mind and body. If you want to stop industrial conflicts, then find democratic ways to facilitate the achievement of these human and democratic objectives. The Taft-Hartley Act makes the achievement of economic and social justice more difficult. It does not eliminate the cause of industrial conflict, it actually intensifies industrial strife.

You can't separate the economics of collective bargaining from the question of housing. You can't separate the question of minimum wages, of social security, and of hospital medical care, or education from the problem of achieving industrial peace. You see, the tragedy of America is that when free people were faced with the challenge of tangible forces on the battlefields of the world, we were able to rise and meet that challenge. When Congress was called upon to appropriate 400 billion dollars to achieve the negative ends of war, they voted billions and billions and billions without hesitation. But when we talk about Congress meeting

the practical needs of people in terms of housing, in terms of medical care, in terms of greater educational opportunities for our children, minimum wage laws, and social security, then what happens? They don't turn on this 24-inch pipe line that goes from the Appropriations Committee over to the halls of Congress. They don't open up the 24-inch pipe line through which 400 billions of appropriations flowed for war. They say, "You want old age security, medical care, housing, minimum wage legislation? We'll fix you up." And they go over to a Congressional medicine cabinet and get out an eyedropper.

Now if we can spend billions to achieve negative values, why don't we have the moral courage and the strength to face up to the positive problems with equal courage and determination? That's the challenge in America.

#### 5. *Elimination of Double Standards*

This principle is what I call the double standard in collective bargaining. One standard for the people who sit on one side of the table, the executives of these great corporations, and another standard for the workers. There are a lot of these double standards and they're morally wrong, and they're economically stupid. I just want to cite two of them.

One is the question of pension plans. The CIO convention said that pension plans shall be one of our major issues in future collective bargaining. And that's as it should be. A worker goes into one of these great factories. He works there thirty-five to forty years. He's spending all of his money just making ends meet because of the high cost of living. Then he gets to the age where he ought to be able to retire with some sense of security, but he can't. He lives in constant fear of the day when he's going to have to leave the plant because he's too old to work and he knows he hasn't got the resources to buy the necessities of life for himself and his loved ones. Social Security is inadequate, for the cost of living has practically wiped it out.

Yet the double standard comes up every time. Sit across from corporation executives, as I have had the opportunity to do. One day the highest paid fellow on one side of the table was getting \$500,000 a year, and the lowest paid fellow on management side was only getting \$90,000 a year. We said, "We need a pension plan so people can have some security in their old age." They said, "There you come again with these fantastic, unreasonable demands."

In this particular corporation, and it's true of almost every major corporation in our industry and of industry generally, the fellow making \$500,000 a year and the fellow making \$90,000 a year, every year, in addition to their salary were having \$25,000 a year put into a retirement trust fund by the corporation. You see it's the old double standard. It's

the old situation where if you need a pension plan they won't give it to you, and if you don't need one they give you \$25,000.

You're going to hear more about the annual wage as we go down the line. The annual wage is not some fancy thing that some labor agitator dreamed up just to make trouble. The annual wage is not only a matter of economic justice to the wage earner, it's a matter of economic necessity to our economy. How can you achieve and maintain a full production, full employment, full distribution economy, unless the people who make up the consumers in that economy get paid by the year? Here's the old double standard. They pay the corporation executives by the year, and we're all for that. They pay the stockholders by the year. We're for that too. But they pay the workers by the hour. Now when the good Lord made us he made all of our children just like the children of these \$500,000 year executives. If he hadn't intended that the children of the workers in these great factories live twelve months in the year, he would have made them differently. He would have made the children of the corporation executives just as they are. He would have made the children of a fellow who was destined to work in a factory, punch a time clock, and be paid by the hour, with little switches on their sides. Then when a General Motors worker, or a Chevrolet worker or some other worker got laid off, it wouldn't have been a problem. He'd just go home that night and say to his wife, "Now, Mary, before we put the children to bed tonight, remind me that we've got to turn off all the switches so their little stomachs quit working."

These are basic problems. They're real problems because they affect people, and nothing in the whole wide world is nearly so important as people. That is what this whole fight in the world is about—people—ordinary people, little people who have problems and whose children are entitled to grow up in the kind of world where their opportunity to grow is limited only by their individual capacity as a person.

*6. Prevention of Jeopardization of Future Beneficial Economy and Welfare of the People by Private Economic Decisions*

The final basic principle is that if we're going to win the fight to make democracy work in this country of ours, we've got to see to it that no private economic decision shall be permitted to jeopardize the future of our economy or the welfare of our people. Our industry is suffering periodic mass lay-offs; yet we could have made in the last twelve months a million and a half more automobiles. We will make a little more than five million in 1948. We could have made better than six and a half million, but we couldn't get steel. The automobile industry is the biggest consumer of sheet steel, and because we couldn't get steel, our workers walked the streets week after week.



Why can't we get steel? Because the steel industry in America is carrying on a deliberate program of organized scarcity. We finally pulled enough strings in Washington to get the Senate Committee on Small Business to convene a meeting on the steel shortage. The steel industry came down, and their official spokesman testified that temporarily there was a steel shortage, but that was an abnormal situation. In time, he said, industrial activity will go back to its normal level and there'll be plenty of steel. And he went on, "Why we're just going to have to have a depression and when we have a depression there'll be plenty of steel." I say to you that we can't permit the economics of scarcity to jeopardize our future and we can't have these private economic decisions putting our economy in a strait jacket.

We had a gas shortage in Detroit last winter; 300,000 workers were on the street almost three weeks because we couldn't get gas. We couldn't get gas, not because there wasn't sufficient gas, but because the gas company couldn't get steel to have the pipes made to pipe the gas into Detroit. There are coal shortages in some parts of the country, not because there hasn't been enough coal, but because of the shortage of flat cars and gondola cars with which to move the coal, because the people who make the cars can't get steel.

We worked on a plan to substitute aluminum for steel in some of our jobs. We can't get aluminum because of the power shortage. We're now producing only 60 percent of the aluminum that we produced at the peak of war production because there's not enough power. I talked to the people up on the Columbia River. They're generating 20 percent of the capacity that the Columbia River can develop, if its capacity is fully developed.

What's the final answer? Steel. They can't get steel. That goes right around—the vicious circle of monopoly and scarcity. We need ten million tons more of steel capacity, and the steel industry says it won't expand, or that it will expand only a little, under pressure. The government had to put fifteen billion dollars into the steel industry to expand it to meet the needs of our war economy. I take the position that no industry, no private economic group, has the right in America to block the future of our economy and jeopardize the community welfare. That's precisely what the steel industry is doing. This isn't true in all industry, but it is true too often in too many places in the high councils of American industry. It has no faith in the future of America.

During the war I raised the question that we need in America what I call the fifth basic freedom. The four freedoms are adequate to meet the problems of most of the world but not for us in America. We need a fifth basic freedom—freedom from the fear of abundance. That's the

trouble with the steel industry and the monopolies. They're afraid of abundance because they have based their economics and their profits on scarcity. We've got to break the barriers that stand in the way of achievement of abundance in America. If we're going to work out a rational, intelligent, and constructive solution to the problems of wages, prices, and profits, labor and management must find a way to get and to develop the practical machinery to translate the facts into practical collective bargaining results. This must be done on the basis that collective bargaining is not a tribal war between two groups in our economy, but on the proper assumption that collective bargaining is the business of the whole community. Labor and management have got to meet their responsibility not only to themselves but to the whole community. They can do that only to the extent that they demonstrate the ability and the will to rise above the status of competing economic pressure groups. And I say that if we do that—labor and management together—we can make a real contribution to the future of America. Our problem is to develop the social and human engineering sciences to match our production engineering techniques.

Right here in this great university, one of your great professors split the atom. The fact that we know how to split the atom is little consolation to a citizen who can't make ends meet, who can't get a decent house for his family to live in. We know how to do things with materials in America, and the universities are still turning out thousands of competent engineers in science—scientists to work in the field with materials. We've got to put more energy and more time and more attention to develop engineers to work on human problems so that we will begin to catch up with the progress we've made in the physical sciences. We've got to take the atom and the fact that we know how to split it, and translate that into human progress, human security, and human happiness. That's the great challenge. I say if labor and management in America will step up to their responsibility, will apply the principles which I have outlined, we can make a great contribution.

We have got all the material resources, we've got all the human resources, we've got the technical know-how to build a better world, but we will not build that better world unless we begin to apply these resources to the practical problems of the great mass of our people 365 days of the year. If we do that, I am confident that we can go forward in America, and together we can build that brave new world where peace can be made secure and where men can have both bread and freedom.

# Wayne Morse

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IN TALKING about the Economics of Collective Bargaining, I am also going to talk about the politics of collective bargaining, because this economic democracy of ours is, of course, primarily a political democracy, and we cannot ignore political implications and connotations in regard to the whole labor problem that confronts America. It is not important that a speaker ever ask an audience to agree with him, or that he get agreement, but it is important that some of the problems that I hope to raise in this discussion tonight be problems you will think about. Whether you agree with some of my suggested solutions of the problems which confront us, you are going to have to solve them, and you people of the generation following me are going to have to do a better job of solving them than we have thus far in the history of America, if we are going to keep true political and economic democracy hitched together as a working team in this country. It is a very deep conviction of mine that when we start dealing with issues, such as those involving the great subject of labor and labor legislation, we must face them nonpartisanly on the basis of the facts, and not permit the solutions or the proposed solutions to take on political coloration contrary to the facts.

## SIGNIFICANCE OF OBJECTIVE FACTS IN LABOR RELATIONS

I want to talk to you very frankly only from my point of view, and I shall not speak in the spirit of one who believes he knows the answers, because I am sure I don't. Nor do I talk in the spirit of one who believes that he was necessarily right in the 80th Congress and that his party and the many Democrats who also took a position contrary to the position of the speaker were wrong. But I am one who is convinced, nevertheless, that some way, somehow, the American people must make constantly clear to those who represent us in the legislative halls of this country, state and national, that they want solutions to be based upon objective facts, on the preponderance of the evidence, on the merits of issues, and not on the basis of pressure politics.

If I had to name tonight the greatest problem I see in this whole question of the economics of collective bargaining in so far as the political factors are concerned, it is that we have been operating in a field of pressure politics in so far as labor legislation is concerned. Pressure politics from labor and from business. Pressure politics will never solve the problem in the common good from the standpoint of solutions based

on objective facts. You can no more take the National Association of Manufacturers' propaganda that was spread across this country at tremendous expense prior to the passage of the Taft-Hartley Act and find in it any basis for a conclusion that is based on objective analysis of the problem, than you can take the position assumed by the labor leaders during those long weeks when we conducted the hearings on that bill, who when asked what legislation they proposed, answered, "Not any." There was no objectivity to that point of view.

I say here tonight to my labor leader friends in this audience, that the labor leaders of this country let labor down when we were dealing with labor legislation in the Congress of the United States, because some way, somehow, they got the notion that labor was beyond any legislative control and check in so far as its abuses were concerned. Whenever any group takes that position and is at the same time guilty of practices that need to be checked, the public opinion pendulum is going to swing to an extreme degree. Thus, it is true that in January, 1947, organized labor in America, by and large, was acting outside of the framework of public opinion. It took an adamant stand against any labor legislation. I think it gravely injured collective bargaining by that stand. It should have come forward with reasonable proposals for modification of labor legislation then on the books protecting the legitimate rights of labor, but at the same time recognizing that labor statesmanship in this country calls upon labor to recognize the legitimate rights of industry, too.

When great employer pressure groups such as the NAM make proposals based on the type of pressure politics that characterize their large-scale advertisements across this country, they are bound to fail in their ultimate objective. The NAM will fail in obtaining its extreme proposals just as labor now is bound to fail if labor in the oncoming session of Congress takes the position set out in the resolutions of both the AFL and CIO conventions just ended, to wit, that we should repeal the Taft-Hartley Act and repass the Wagner Act without change. That is not good enough. And that must not be, in my opinion, the solution of the Congress in the 81st session to this whole problem of the economics of collective bargaining through legislation to the extent that legislation has any bearing upon it.

#### BALANCING THE RIGHTS OF LABOR AND MANAGEMENT

So the first main point I make tonight is that we must make clear to the employers and we must make clear to labor that the public is not going to stand for their dictating the industrial legislative course of this government by way of pressure politics. The second main point I want to make is that we need a bill this time which will balance the rights of

labor and industry by giving to each, and both, equal procedural rights for the protection of their legitimate interests and give to the public the protection it is entitled to against the abuses and excesses of both labor and industry. I want to stress in my discussion of the economics of collective bargaining the relation of procedure to the economics of collective bargaining. I want to point out to you students, something I tried to teach for fifteen years to my law students, that you cannot separate your procedural rights from your substantive rights. Let me control the procedure of any agency, tribunal or court and I will determine through that procedure the effectiveness of your substantive rights.

Through the long weeks of discussion in the Senate committee on the Taft-Hartley Act, I fought for what I considered to be fair procedure. I undoubtedly was mistaken on some points, because my judgment certainly is not infallible, but I fought for what I believed to be fair procedure. I opposed the final passage of the Taft-Hartley Act, and fought for the sustaining of the veto on the Taft-Hartley Act because I was convinced that the procedure of that law, in many respects, is not fair. In my judgment, you can't have collective bargaining working fairly in this country whenever you have it working within the framework of a law that discriminates against one of the parties to the negotiation. The real problems of the Taft-Hartley Act will not arise until unemployment stalks the streets of America. Let that time come. Then you will see, for the first time as a public, how discriminatory many of the procedures of that law truly are. The solution—to the extent that you can have a solution through legislation—of this problem of collective bargaining, is not to be found in the type of procedure that is set out in the Taft-Hartley Act.

The third point that I want to make is that you cannot solve these problems to any major extent, by way of legislation. We must avoid thinking that we can solve social and economic problems of this type through legislation. Certainly you must have some legislation to check abuses, set up minimum standards, prevent labor or industry or agriculture or any group from turning our so-called private property economy or free enterprise system into license to exploit the weak. The function of government should be at the level of maintaining by way of legislation only those minimum checks necessary to permit the voluntary system of American democracy to function. The citizens of America are either going to make the principles of American voluntarism under our constitutional form of government work, or you and I are going to live to see a destruction of voluntarism by way of the legislative program of the state, so intricate in nature that we truly will have a regimented governmental economy.

## CONSTITUTIONAL LIBERALISM

A lot of people call me a liberal, and let's have an understanding right here and now as to my own definition of the type of liberal I am, if a liberal I am. I like to refer to myself as a constitutional liberal, and it has particular application to the subject of the evening. I think it was two years ago when I was debating on the floor of the Senate that I used the phrase for the first time, and I will make a frank confession to you here tonight. I used the phrase constitutional liberal because I was trying to find a verbal distinction between what was a deep conviction on my part as far as a political philosophy is concerned, and the label that so many people were inclined to pin on those who held to the views that I was expressing at that time, and am still expressing. Many people pin the label leftist on those of us who stand for sound liberalism. If there is anything I am not, it is a leftist, because by a leftist, I mean one who believes in and is working for the setting up of a state controlled economy in this nation. Leftism will tear down our structure of political democracy.

So in the course of that debate I stopped to define the basic tenet of my political philosophy stating that I looked upon representative government as having as one of its primary objectives the obligation of seeking through legislation to do what is necessary to protect the economic and politically weak from the exploitation of the economic and politically strong. This must be done, however, within the framework of a private property economy and in keeping with the legal guarantees and principles of the constitution, including its precious bill of human rights.

This definition of constitutional liberalism is the liberalism of the constitution that I am going to fight for in the field of labor legislation as well as in all other fields of legislative activity. The leftist can't accept that definition, because in the first place he is not concerned about the preservation of a private property economy. He is not interested in that definition, for the second reason, because he is one who believes his ends justify his using any means, constitutional or unconstitutional. Thus you find him scoffing at the checks and balances of the constitution. I insist that the constitution must be made as dynamic and living in protecting your individual rights and freedom today as it was when the founding fathers wrote it. If that is not done you are going to lose those rights. The leftist certainly has no program that will save those rights for you.

The political and economic reactionary can't accept constitutional liberalism. What does he have to offer? In the last analysis, what is left to him, as far as any idea at all is concerned, is a laissez-faire economy.

The laissez-faire economy rests on exploitation of the weak. It rests upon a "boom and bust" cycle. The reactionary thinks that depressions are a part of the price you pay for liberty. But the reactionaries will never sell that one to the American people, who know that a representative government truly functioning in their interests is a government that must take those necessary steps in the common good to prevent "boom and bust" cycles, and to protect the rank and file of the people of this country from depression. No, you are never going to get a solution to the labor problems of this country if you follow the program of laissez-faire, or if you fall for the reactionaries' slogan, "You just want to let the law of supply and demand run its free course."

#### WORKINGS OF THE LAW OF SUPPLY AND DEMAND

In 1946, 1947 and 1948, we had powerful people in this country, including great businessmen and industrialists who ought to have known better, who were talking about the free operation of the law of supply and demand as the solution to the problem that confronted us. They wanted labor legislation drafted on that basis. As long as you're living in a transition period between war and peace, and that is the period you are living in tonight, it is nonsense to talk about the free operation of the law of supply and demand.

If you have to draft young men into the army in so-called peacetime, and you do, that very fact alone indicates such a disturbance to our economy that the law of supply and demand cannot possibly work freely. Let me tell you that there is no question in my mind about the security needs of our country requiring a peacetime draft law. We cannot afford to take any chances with the security of our nation as long as Russia continues to present so many evidences of unfriendly intentions toward the peace of the world. But the fact that we have to take these steps towards strengthening our security, including a peacetime draft, is clear evidence that we are not living in a peacetime economy. The forces at work in the world which make it necessary today for the drafting of our young men to protect the security of our nation make it nonsense to talk about the free operation of the law of supply and demand.

Consider for a moment the economics of our steel industry today. As steel goes so goes the economy of the nation. My personal view is that one of the difficulties with the American economy tonight is that the Congress of the United States hasn't done what it should do to regulate the steel industry in this transition period between war and peace. I am afraid we are allowing too much operation of the law of supply and demand within the steel industry. I am afraid that lifting price controls on steel and permitting the steel industry to select its customers in this

period of tremendously short supply of steel is resulting in some gross economic injustices.

As long as it is necessary for the government to take out of the peacetime economy of our country such large quantities of steel which are necessary for military and foreign purposes today it is impossible to have anything that remotely resembles the free operation of the law of supply and demand in our economy. The supply of steel affects the operation of every business on every Main Street in America. We should have had an allocation program for steel worked out by the government in coöperation with the steel industry months and months ago. Congress ran out on its responsibilities in respect to an allocation program. It surrendered to the propaganda forces of American big business that flooded the country with advertisements about the need for going back to uncontrolled operation of the economic law of supply and demand. It was propaganda based upon an advocacy of exploiting the economic weak.

Go back and read those advertisements of the NAM including the infamous twelfth plank proposal. That was the one which was going to have us exact from any recipient country under the Marshall Plan a condition precedent that none of the funds should be used to socialize or nationalize any industry in the recipient country. That proposal stirred up a hard fight in Congress, and there were powerful forces behind that amendment. Under the able leadership of that great statesman from Michigan, Arthur Vandenburg, we beat that amendment. I think it was one of the most scuttling ones offered to the Marshall Plan. There were some great candidates for high public office in those days who fell for that amendment. They showed that they didn't know what the fight for freedom is all about. The fight for freedom at home and abroad is always going to be a fight for the exercise of freedom of choice at a free ballot box by people anywhere, everywhere, who are willing to make that kind of a fight.

We were not offering the Marshall Plan as a business investment, or as a sound loan on bankers' terms, but as a wise expenditure of defense dollars so that freedom loving people in Europe can make a fight for freedom. I told one of these great political leaders who came in and talked to me about the NAM amendment that he was wrong because he showed that he didn't know very much about the economy of Europe. Tell the Norwegians and the Swedes, for example, who have lived for generations under an economy of national scarcity as have other peoples in Europe, too, that their government should not do things for them that I hope our government under our economy of abundance will never have to do for us. No one will fight nationalism and socialism in this country more than I will, but we can't dictate with American dollars the type of



economy that Europe will have. What we ought to do, if we want to keep this fight for freedom alive in the world is to give the people of Europe an opportunity to exercise freedom of choice, by way of a free ballot box. When we finally came to a vote on the amendment propagandized by the NAM, we beat it.

Although I have criticized certain forces of big business, who were so short sighted back in those days as to think we should use the Marshall Plan as a medium through which to dictate terms and conditions involving the economy of Europe, let me make perfectly clear that I do not stand for any waste or inefficiency in the administration of the plan. However if we are to protect freedom of choice we must make perfectly clear in this field that we are not going to seek to lay down any economic policies that are unworkable in Europe.

#### CRITICISM OF THE TAFT-HARTLEY ACT

Now to go back to the subject of collective bargaining I want you to remember, that you are not going to solve the social, economic and personal problems of labor relations involving collective bargaining in common law court actions. Courts are not the place for the settlement of labor disputes. My great criticism of the over-all general theory of the Taft-Hartley Act is that in the last analysis it sounds in terms of common law court action. Let me give you a little history about it for I know a little bit about that bill which I worked on for thirteen weeks. It's forerunner consisted of two bills, the Morse bill and the Ives bill.

The Morse bill was a bill which sought to equalize the provisions of the Wagner Act so that American employers could have the rights to which they are still entitled. The Taft-Hartley Act doesn't give them any workable or acceptable way to settle labor disputes. Many of them are now beginning to see it and are coming to me by the scores as I go about the country, asking me what chances I think there are of getting enacted into law the administrative law procedures of the original Morse bill. I don't know what the chances are, but we are going to make a fight for them.

What is the difference between the basic procedural theory of the Morse bill and the Taft-Hartley Act? The difference is one of making an approach to these problems through administrative law procedure rather than common law court procedure. The problems of labor disputes are social and economic and personal as between employer and labor. They do not involve legal issues primarily.

Senator Ives, the distinguished Senator from New York, had a very good bill dealing in part with the Wagner Act, but dealing in the main with subject matter over and above the Wagner Act, particularly with

the emergency dispute problems and with the organization of labor services in the government. We were confronted with the very practical political problem on a thirteen-man committee of getting just that one vote over the one-half of the membership of the committee in order to report a bill to the floor of the Senate.

I want to talk about a little practical politics for a minute in regard to the committee problem which confronted us. If we were going to have legislation that was fair, we had to have legislation that represented conscionable compromises between and among many different points of view in the committee and in the Senate. Let me tell you one thing that I have learned in the Senate of the United States—some think not enough yet, but I have learned something about how to compromise. I hope I have learned that lesson without compromising principles. But it is one thing to sit down in a law school and write out what you think is a model bill. This I did many times as legislative counsel to the Oregon State Legislature, which under the statutes of Oregon, the Dean of the Law School automatically has to do. It is quite a different thing to be on the other end where you have to try to get certain legislation through committee and then through the legislative body. It requires conscionable compromises. Confronted with that political reality in the Senate Labor Committee we combined the two bills into a committee bill which became known as the Morse-Ives bill. That was the committee bill. It was the Morse-Ives bill when it came out of the committee. Most of its sections were passed in committee by a vote of seven to six or eight to five. This indicates how close we came to the job of working out those compromises necessary in order to get a bill reported favorably to the floor of the Senate. It was a job of many weeks.

Now let me give you a specific example of the great difference in theory between the Morse-Ives bill and the Taft-Hartley bill procedurally. In my bill, I took the position that labor must be held responsible for its contracts. Labor knows, in fact all wise labor leaders—who have talked to me many times—know, that they cannot justify violations of contract. I took this position and insisted that the Wagner Act be modified to place contractual responsibility upon the unions. I did it by way of giving the employers the same unfair labor practice procedure rights through the National Labor Relations Board that the unions had under the Wagner Act against the employer. I take the position that a principle of law under the American system of jurisprudence must be equally applicable to all parties coming under the same operative facts. It is an elementary rule, it seems to me, of equality of justice in this country. But the Wagner Act gave no such equality to the American employers. Labor in January, February, and March, 1947, took the position that it did not want to

help them get it, but we brought out of committee onto the floor of the Senate a combined Morse-Ives bill that gave it to them.

The Ives bill had in it a procedure giving the employers the right to sue a union for breach of contract. This was not in my bill but I accepted it as a compromise along with the provision in my bill that the employer could elect to bring an unfair labor practice charge against the union. Ives maintained that protection ought to be in the bill allowing employers to sue unions for breach of contract so that if the employers wanted to use it, they had the right to do so. He pointed out that the unions had a right to sue employers. He contended that employers ought to have the right to sue the unions. I suggested that both procedures go into the bill leaving it up to the employer to make his choice. And that's the way we reported it to the floor of the Senate. There is an interesting combination in the same bill of a court approach and an administrative law approach. When they came to appoint the conference committee, I wasn't appointed to that committee although all seniority rights entitled me to it. I had no chance in the conference committee to make the arguments that were made in the Senate committee which resulted in a bill in the alternative on the breach of contract point. So when the bill came back to the Senate, it came back with my procedure eliminated and Ives's suit for damage procedure the only remaining remedy. And what happened? The argument against this provision of the bill was made by some of us at the time—it was perfectly obvious. Let the record speak for itself. We pointed out that employers are not going to use to any great extent the suit for damage section.

#### SUIT FOR DAMAGE CLAUSE

It is my honest judgment that a minimum of ninety-seven percent of the suits for damages that could be brought under the Taft-Hartley Act by employers, because of union violations of that law, are not being brought, and they never will be brought. The reason is simple and reflects human behavior. When you see plaintiffs and defendants coming out of the San Francisco courthouses after judgment, walking arm in arm in affectionate regard for each other, then the suit for damage section of the Taft-Hartley Act will work—but never before. Why? Because the employer has to walk out of the courtroom, we will say, with his \$100,000 judgment and then walk back to his plant and work with the men of the same union against whom he has just collected a judgment of \$100,000. What is the result? Well, he pays about three times that much in the first twelve months, because men are human. I don't condone their "get even" attitude but it is a common human reaction. Someone asked me in the course of the debate if I didn't believe in government by

law. Of course I do, but I don't believe in stretching the law to the breaking point, either. You don't keep democracy strong that way. No law can be passed that will change human nature.

I recently talked with a group of employers in Boston, and they related to me one of the worst cases of racketeering in labor in this country I have ever heard about. A disgraceful page in the history of the union. When asked what he was going to do about it the employer concerned replied that all he had under the Taft-Hartley Act in the last analysis was a suit for damages. He said that wouldn't do him any good because that particular union was so strong financially that he couldn't break it. He was forced to work with it, and he said he needed the procedure which was in the original Morse-Ives bill. My proposed procedure would do him some good and he wanted to know about his chances of getting it. I told him that time would tell. I shall continue to do what I can to have the facts presented in a fight for an amendment to the bill which will modify the Taft-Hartley Act in this and other respects, but that is going to be a test of the statesmanship of my party.

It is not too late for us, as a party, to at least proceed now with constructive proposals that will give that Boston employer friend of mine the relief that he needs. We should pass a revised labor law which will permit good faith collective bargaining to work. When you have restrictive legislation that discriminates in favor of either the employer or the workers, there is the tendency for those at the collective bargaining table who are favored by that legislation not to bargain in good faith, not to let the system of voluntarism really work, but to go as far as they think they have to go, and then proceed to take advantage of the biased legislation passed in their favor. That's why you are going to find that legislation of the Taft-Hartley type, if not changed, is going to cause a serious breakdown in collective bargaining.

#### THE INJUNCTIVE PROCESS

Another point that is closely related to this question of collective bargaining is the injunctive process. Now, in the Morse bill and also in the Morse-Ives bill, we had the injunction only as the last resort. We use it if a union defies the National Labor Relations Board, by refusing to follow its order, or to accept its decision on a jurisdictional dispute. But it is the last step—not the first. I want to say to my good friends in business in this audience tonight that I do not think you have yet correctly appraised the psychology of the workers of this country in regard to court injunctions. You are never going to solve, for any lasting period of time, labor relations in any industry by quick resorts to the injunctive process. It's a red flag to American labor, and it doesn't do any good to

say, that the Taft-Hartley Act injunction procedure is not as drastic as it was prior to the Norris-LaGuardia Act. Statistics on this point are rather interesting. They seem to indicate that even the type of injunction permitted under the Taft-Hartley Act, as far as government is concerned, is giving great encouragement to judges in labor cases not involving the government to issue injunctions which, prior to the passage of the law, they didn't issue. Any danger of a return to government by injunction in this country or any basis for causing labor to develop the psychological attitude that return to government by injunction is what you are after, will not produce industrial peace. Labor will dig in along a united front in America to fight the development and overuse of the injunctive weapon, and in the end they will defeat those employers who want the injunction used as a strike breaking weapon under the Taft-Hartley Act.

Labor feels that the injunction is issued in cases where the government says to workers, "American free workers, we'll give you a choice. We will give you a choice of going down into the bowels of the earth and mining coal for eighty days, for example, under the direction of a private employer in accordance with his instructions and orders and for his profit dollars, or go to jail for contempt of court." Labor has the idea that such a choice violates an inalienable right. You are not going to make them like it. You may make them work that way, but you are not building industrial peace. The injunctive process is a great handicap to the operation of the economics of collective bargaining because you can't have much collective bargaining around a table characterized by resentment.

On the other hand, labor leaders should not get the idea that just because an election has been won for the candidate that most of them supported, that they are going to be able to call the dances in the next session of Congress. My plea to them is to come forward *now* with some constructive suggestions as to how they think the Wagner Act needs to be amended in the interests of protecting their legitimate rights and giving an equal protection to the employers. I am for repeal of the Taft-Hartley Act but I am against the reenactment of the Wagner Act without change.

#### EMERGENCY DISPUTES

Let us now discuss the workings of the Taft-Hartley Act in respect to emergency disputes. First you get the injunction, and then a fact-finding committee is appointed. This committee can't make any recommendations for no fact-finding committee under the law is empowered to do this. I don't know what they are finding facts for, if it isn't to tell the American people what, as experts, they believe the conclusions are that ought to be drawn from the facts. I think it was a foolish proposal to

prevent the fact-finding board on the basis of its study, from making their recommendations and backing them up with a documentation to the facts as they found them to be. After they make their report to the President, the injunction automatically lifts, and the President makes a report to the Congress of the United States. And there it rests. That is, in essence, the procedure of the emergency disputes section of the Taft-Hartley Act. I don't know what they thought they were going to accomplish by it. It is not working. I recommend that the section of the law dealing with the so-called emergency disputes should be modified so that the fact-finding board shall be duty bound to make recommendations. In fact the entire section needs to be substituted with a much improved section.

It is time to put an end to recrimination, accusation, and bad feeling, on the part of both employers and workers, and of all politicians of varying points of view. We must unite in a determination to go back to the 81st Congress not as Republicans and not as Democrats, but as representatives of a people who are insisting that the time has come to pass legislation that truly will be fair and will keep the pendulum of public opinion right in the middle of the road. We need new labor legislation that returns to the collective bargaining table the spirit of free collective bargaining based upon voluntarism without being biased or slanted in the favor of either side. Unless we do that, we are not going to have industrial peace during the next ten years in this country. If we don't work out a system of industrial peace in the next ten years, it is my honest judgment that, by 1958 or 1960 at the latest, we are going to have political alignments in America based upon class consciousness. Whenever we have a class-conscious alignment in America, we will have lost what I am fighting for when I talk about constitutional liberalism, because, whenever you have a ruling party motivated solely by a class-conscious conflict point of view there will be no safeguard of constitutional checks and balances. That's the history of the downfall of democracy through the pages of history. As long as it is my privilege and trust to serve the people of my state in public office, I shall continue to make a plea to employers and workers alike to come of age and get busy in the 81st Congress and pass fair labor legislation based on some industrial and labor statesmanship. It should be legislation in the form of a revised Wagner Act fair to labor, industry, and the public.

#### PROCESS OF ARBITRATION

Concerning the question of arbitration, I think whenever possible, we must keep it on a voluntary basis. In emergency dispute cases, both employers and labor ought to acknowledge their duty to agree to incorpo-

rate into their contracts a thoroughly workable arbitration section so that the government will not have to intercede, in the last analysis, by forcing an arbitration upon them. I am a strong supporter of voluntary arbitration. It is true that arbitration raises problems of procedure, and the problem of arbitrator personnel. I recognize that in arbitration tremendous power is given to an arbitrator when you ask him to come in and take jurisdiction over the type of questions that arise in a collective bargaining contract. However, arbitration is preferred to economic force. In jurisdictional dispute cases the public has the right to demand it. Labor does not like my proposal for compulsory arbitration, if necessary, in the field of jurisdictional disputes. Yet they must recognize that they cannot continue to carry on family quarrels by way of economic action against the public and against employers who in fact are not guilty of collusion in jurisdictional disputes. Hence, I am of the opinion that in the revised law, labor is going to have it put up to them either to settle their jurisdictional disputes short of economic action by their own machinery, or have the National Labor Relations Board appoint an arbitrator to do it for them. I recognize that in labor disputes the time comes when a face saver is needed. The voluntary process of collective bargaining and what I call the administrative law procedure approach to labor relations, are far superior to a strict common law court procedure method of handling labor disputes.

Under the administrative law procedure approach, as provided for in the Morse-Ives bill, both parties to a labor dispute have ample opportunity to save face and make an acceptable compromise settlement at any one of several stages of the informal procedure used in handling labor disputes.

Take, for example, the opportunity for settlement by arbitration. Several times I have served as arbitrator in a case and as the parties calmed down during the course of the arbitration hearings and began to see how unreasonable some of their claims appeared to be when presented to a third party, they asked for a recess of the arbitration hearing in order to see if they could work out with the other party to the dispute an amicable settlement. In other words, the administrative law procedure itself was helpful in returning the parties to the free collective bargaining table.

However, the Taft-Hartley Act is bringing about a serious impediment to free collective bargaining because its legalistic procedures tend to array the parties as litigants in a court battle. It places in the hands of the employers the advantages of many legal technicalities with which to delay and postpone settlement of cases and harass organizational activities of a union. It sets up a courtroom arena for legal battles over issues

which in the interest of industrial peace should be settled through the more informal procedures of administrative law such as are set out in the Morse-Ives bill.

The Taft-Hartley Act impedes good-faith collective bargaining and, as the last election shows, it throws labor relations problems into politics. It is my judgment that no law has been passed by the Congress in a quarter of a century which has done more to create class-conscious political alignments in our country than the Taft-Hartley Act. Therefore, I intend to go back to the 81st Congress and renew my plea for taking labor relations problems out of politics by passing a new labor law which will guarantee to employers, as well as labor, the same procedural right before the National Labor Relations Board and which will put an end to the unfair discriminatory features of both the Wagner Act and the Taft-Hartley Act.



# Sumner H. Slichter

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THE EFFECT of collective bargaining upon the standard of living of employees breaks down into two basic questions: (1) How may collective bargaining be expected to affect the share of the national income going to trade union members? (2) How may it be expected to affect the rate at which the output of the economy grows? My remarks will deal with these two questions.

## EFFECT OF COLLECTIVE BARGAINING UPON NATIONAL INCOME OF TRADE UNION MEMBERS

Trade unions believe that employees should have a larger share of the national product. Resolution No. 9, adopted by the CIO at its convention in Portland in 1948, declared in part: "It is essential in a dynamic economy for wages to be ever increasing and for the wage segment of our national income to be enlarging through taking a greater share of an ever-increasing national income."<sup>1</sup>

Indeed, trade unions seem to place more emphasis upon changing the distribution of the national product than upon changing its size.

So long as substantial numbers of employees are unorganized, trade union members might enlarge their share of the national product by encroaching upon the share going to unorganized employees. Trade unionists, however, believe that all employees should be organized. Consequently, trade unions can hardly regard encroachment by the organized employees upon the incomes of unorganized employees as a satisfactory way for union members to raise their standard of living. If union members do not encroach upon the share going to unorganized employees, there are two principal ways in which they might raise their proportion of the national income. One is by encroaching upon the share going to the self-employed (the farmers and small businessmen) and the other is by encroaching upon the share going to property in the form of interest, rent, and corporate profits. In the United States the compensation of employees represents about 66 percent of the national income after deduction of corporate tax liability. The income of the self-

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<sup>1</sup> "Report of Resolutions Committee," *Tenth Constitutional Convention of the Congress of Industrial Organizations* (November, 1948), p. 15.

employed represents about 20 percent; and interest, rent, and corporate profits, about 14 percent.<sup>3</sup>

There are two ways in which employees might enlarge their share of the national income. One is through an increase in the number of employees relative to the number of self-employed or to the amount of capital. The other is through a rise in the per capita income of employees relative to the per capita income of the self-employed or through a sufficient decrease in the return on a given amount of capital. Seventy-five years ago, for example, the share of the national income going to employees was about 50 percent instead of 66 percent and that going to the self-employed was 26 percent instead of 20 percent.<sup>4</sup> The rise in the proportion of income going to employees was a result of the fact that the number of employees in the labor force increased relative to the self-employed—from about three-fifths of the labor force to nearly four-fifths. This is not the kind of enlargement of the share of employees which trade union representatives have in mind when they assert that wages must be an ever-increasing share of the national income. The union spokesmen are thinking of a rise in the per capita income of employees relative to the per capita income of the self-employed or a rise in the per capita income of employees at the expense of the amount of income going to property owners.

When I discuss the possibility of trade unions' raising the share of employees in the national income through collective bargaining, I mean the possibility (1) of their raising the per capita income of employees relative to the per capita income of the self-employed and (2) of their enlarging the share of the national income going to employees relative to the share going to property.

<sup>3</sup> In 1948, national income, after deduction of corporate income tax liability, was 212.6 billion dollars, distributed as follows:

Compensation of employees . . . . .	\$140.3 billion
Income of unincorporated enterprises . . . . .	42.8 "
Corporate profits after taxes and inventory adjustment . . . . .	19.0 "
Rental income of persons . . . . .	6.6 "
Net interest . . . . .	3.8 "
	<hr/>
	\$212.6 "

The Department of Commerce now includes corporate tax liability in the national income. I have eliminated it. Its inclusion is unsatisfactory for two reasons. One is that the corporate tax liability is much greater now than it was a few years ago. Hence its inclusion causes the share of the national income going to corporations to rise. This is a fictitious rise. It simply means that corporations are paying higher taxes. In the second place, corporations are nothing but associations of individuals. The owners get income only after the corporations have paid their taxes. Hence income after taxes is the proper way in which to represent the share of the national income going to the persons who own shares in corporations.

<sup>4</sup> Kuznets, S., *National Income: A Summary of Findings*, p. 50.

THE POSSIBILITY OF ENCROACHING UPON THE INCOME OF  
WORKERS IN AGRICULTURE

Let us consider first the possibility of employees gaining at the expense of the farmers. The share of agriculture in the national income is much smaller than most people suppose. Even in 1948, when farm income reached an all-time high, the income of unincorporated enterprises in agriculture was only 8.6 percent of the national income corrected for corporate tax liability. In 1929, farm income was 6.6 percent of national income<sup>4</sup> less corporate profits tax liability; in 1933, 5.9 percent; and in 1939, 6.3 percent. The share of farmers in the national income depends upon four principal conditions: (1) the income elasticity of the demand for farm products; (2) the price elasticity of the demand for farm products; (3) the rate of technological progress in agriculture relative to non-agricultural industries; (4) the mobility of agricultural labor.

The income elasticity of the demand for most farm products is believed to be low. This means that as per capita income rises, the proportion of it spent on farm products tends to drop.<sup>5</sup> It is a historical fact that as per capita real incomes have risen, the proportion spent for farm products has usually decreased.<sup>6</sup> Perhaps the income elasticity of the demand for farm products will rise, but for farm products as a group it is not likely to reach unity. Hence, as per capita income rises, the proportion of income spent for farm products (other things being equal) is likely to fall.

The price elasticity of the demand for most farm products also seems to be low. By this I mean that an increase in the abundance of farm products relative to other products will cause the total volume of expenditures on farm products to fall and a drop in the abundance of

<sup>4</sup> The 1948 national income, including corporate tax liability, was 226.2 billion dollars. Corporate profits tax liability was 13.6 billion dollars; farm income was 18.4 billion dollars.

<sup>5</sup> It is assumed, of course, that the increase in income is accompanied by no significant changes in the supply of goods, that is, that the relative abundance of different kinds of goods remains substantially unchanged.

<sup>6</sup> This matter is discussed by T. W. Schultz in his *Agriculture in an Unstable Economy*, pp. 62-70.

In 1910, income per capita in real terms was about 1.8 times as large as in 1870. The proportion of domestic expenditures on farm products to the national income dropped from 34.1 percent in 1870 to 19.0 percent in 1919. In 1939, when real per capita income was roughly 48 percent larger than in 1910, domestic expenditures on farm products dropped to 11.6 percent of the national income. Between 1940 and 1947, however, the rise in per capita real incomes was accompanied by an increase in the proportion of these incomes spent for farm products. This result is explained by the effect of the war upon the relative supply of different kinds of goods and particularly by the effect of demand outside the United States upon the prices of goods here.

farm products relative to other products will cause the total expenditures on farm products to rise.<sup>7</sup> Perhaps the price elasticity of the demand for farm products will not be as low in the future as in the past. Nevertheless, for farm products as a group, the price elasticity of demand is likely to be less than unity.

The rate of technological progress in agriculture has sometimes been faster and sometimes slower than the average rate of technological progress in nonagricultural industries as a whole. I measure technological progress by the change in output per worker.<sup>8</sup> In recent years output per worker in agriculture has risen faster than output in other industries, but recent conditions have been abnormal.<sup>9</sup> The comparison between agriculture and other industries during the last twenty years is affected by divergent trends in the hours of work. Between 1929 and 1939, there was a considerable drop in the weekly working hours in most nonagricultural industries. There is no reason to suppose that a similar drop occurred in agriculture. Between 1939 and 1948, there was little change in weekly working hours in nonagricultural industries. There was probably little change also in agriculture, but it is possible that weekly hours in agriculture were somewhat higher in 1948 than in 1939. The increase in output per worker in nonagricultural industries between 1939 and 1948 was retarded by shortages of material and by other abnormal conditions. I see no way of making a reliable forecast concerning the rate of technological progress in agriculture in the near future. It will be rapid, but technological progress in many other industries will also be rapid. Perhaps it is reasonable to assume that output per worker in agriculture will rise about as fast as in other industries.

The labor force in agriculture tends to grow faster than the labor force of the community as a whole because farm families seem to have a higher average number of children than other families. The mobility of agricultural labor has only been moderately high.<sup>10</sup> It is true that there has been a large movement of persons from agricultural into nonagricultural employments—sufficient, in fact, to bring about a slow drop in the agri-

<sup>7</sup> It is assumed that the change in the abundance of farm products relative to other products entails no change in the average per capita real income of the community.

<sup>8</sup> A better measure of the rate of technological progress would be the change in output per man-hour. Unfortunately such figures are not available for agriculture.

<sup>9</sup> Between 1929 and 1939, annual output per worker in farming rose 21 percent. It rose 7.2 percent per full-time equivalent employee in the six principal branches of nonagricultural industries—manufacturing, mining, transportation, construction, and electric and gas utilities. Between 1939 and 1948, annual output per full-time equivalent worker in farming rose 45.7 percent; in nonagricultural industries about 18.4 percent. (Computed from the index of production of goods and utilities, *Economic Report of the President*, January, 1949, p. 110.)

<sup>10</sup> The low mobility of workers in agriculture is affected by the fact that about 77 out of every 100 workers in agriculture are self-employed. Schultz, *op. cit.*, p. 89.

cultural labor force.<sup>11</sup> Nevertheless, the willingness of people to leave agriculture does not seem to be sufficient to reduce the substantial disparity in the per capita incomes of farmers and farm employees, on the one hand, and nonagricultural workers, on the other.<sup>12</sup>

The low-income elasticity of the demand for farm products will tend to cause the per capita income of farm workers to rise less rapidly than the per capita income of nonfarm workers. If technological change occurs about as rapidly in agricultural industries as in other industries and if the birth rate of farm families tends to remain higher than that of urban families, the output of agriculture will tend to grow more rapidly than the output of nonagricultural industries. If this happens, the low-price elasticity of the demand for farm products will further retard the rise in real income per worker in agriculture. The tendency for farm income per worker to lag behind nonagricultural incomes will be diminished by the movement of persons out of agriculture. It is not likely, however, that the movement of labor out of agriculture will be sufficiently great to assure that income per worker in agriculture rises as rapidly as income per employee outside of agriculture.

All of the above trends would occur even in the absence of collective bargaining. Can trade unions, through the device of collective bargaining, reinforce the tendency for incomes per employee outside of agriculture to rise faster than incomes per worker in agriculture? Neither the income elasticity nor the price elasticity of the demand for farm products

<sup>11</sup> Between 1920 and 1939 there was a net migration from farms of about 10 million—sufficient to offset the natural increase in population of 8.7 million and to reduce the farm population by 1.3 million. *Ibid.*, p. 98.

<sup>12</sup> These observations are not altered by the fact that abnormal conditions during recent years have greatly raised the per capita income of farm workers relative to the per capita income of nonagricultural workers. In 1929, average per capita income in agriculture was 53.1 percent of average labor income outside of agriculture. In 1939, per capita income of farm workers was 50.6 percent of labor income outside of agriculture. The war gave a great boost to agricultural incomes and raised income per worker in agriculture to virtually the same level as labor income per employee outside of agriculture, as the following table shows.

	Total income of farm workers (billions)	Income of farm proprietors (billions)	Wages and salaries on farms (billions)	Agricultural employment (thousands of active proprietors and full-time equivalent employees)	Income per full- time farm worker
1929	\$ 7.0	\$ 5.7	\$ 1.3	8,550	\$ 813
1939	5.5	4.5	1.0	7,748	709
1948	21.4	18.4	3.0	7,025	3,047
	Total compensation of employees outside of agriculture (billions)	Nonagricultural employment (thousands of full-time equivalent employees)	Income per full-time employee outside of agriculture		
1929	\$ 49.5	32,311	\$ 1,532		
1939	46.8	33,443	1,400		
1948	137.2	45,848	2,993		

would be affected by collective bargaining. Collective bargaining might accelerate somewhat the rate of technological change in nonagricultural industries, but this almost certainly would tend to raise rather than diminish incomes per worker in agriculture relative to nonagricultural income per employee. Unions, however, do have an important opportunity to increase the incomes of their members at the expense of the farmers; that is, by limiting the movement of workers from agriculture to nonagricultural industries. The unions might limit this movement indirectly by pushing up wages in nonagricultural industries, thus retarding the rise of employment in those industries and, consequently, limiting the jobs available for farm workers outside of agriculture. It is the rate of increase in the number of jobs outside of agriculture, rather than the rate of increase in wages outside of agriculture, which primarily determines the size of the movement of labor from farming to nonfarming employments.

I conclude that unions, through limiting the movement of labor from farms to nonagricultural employments, may moderately raise the per capita income of nonagricultural workers at the expense of agricultural workers. This observation, however, requires an important qualification. The farmers, through the price support program, may completely or partly offset the tendency for agricultural income per worker to lag behind nonagricultural income per employee. If the price elasticity of the demand for agricultural products as a group is less than unity, the price support program will increase the total expenditures for agricultural products, thus tending to defeat the efforts of trade unions to raise the per capita income of their members faster than the rise in the per capita income of farmers. The trade unions, however, may have sufficient political power to eliminate the price support program for farm products or, at least, to keep the support prices so low that they do not greatly increase total expenditures of the community for farm products.

#### THE POSSIBILITY OF ENCROACHING UPON THE INCOME OF PROFESSIONAL WORKERS

The earnings of union workers per hour or per capita may be expected to rise relative to the earnings of professional employees and of self-employed professional workers per hour or per capita. Collective bargaining, however, will not produce this result. In fact, collective bargaining will have a small tendency to prevent it.

The principal reason why the average incomes of professional workers may be expected to rise less rapidly than the wages of union workers is that the professions are steadily increasing in popularity and the number of persons in the professions is increasing far faster than the

total number of gainfully employed. Organization is less prevalent among professional employees than among other employees. Collective bargaining among nonprofessional employees, however, will retard slightly the tendency for the compensation of professional employees to rise less rapidly than the compensation of nonprofessional employees. Professional labor is to some extent a substitute for mechanical labor. The higher the price of mechanical labor, and the greater the expected increases in the prices of mechanical labor, the greater are the amounts that it is advantageous to spend on industrial research and on supervision. To the extent that collective bargaining increases the demand for certain types of professional labor, it will limit the tendency for the hourly or per capita earning of nonprofessional employees to rise relative to the hourly or per capita earnings of certain types of professional men.

Although the hourly or per capita earnings of professional workers may be expected to drop relative to the hourly or per capita earnings of nonprofessional employees, the total share of the national income going to professional workers will probably rise—because the income elasticity and the price elasticity of the demand for professional services seems to be greater than unity and because professional workers may be expected to increase in numbers faster than the labor force as a whole.

#### THE EFFECT OF COLLECTIVE BARGAINING UPON THE INCOME OF SELF-EMPLOYED NONPROFESSIONAL URBAN WORKERS

Some self-employed urban workers are in more or less direct competition with unionized employees. This is true in retailing, in some parts of construction, and in some of the service industries. The success of unions in raising the price of labor through collective bargaining, and thus indirectly in limiting the number of jobs in union industries, will tend to increase the numbers of self-employed workers who compete with union workers and, therefore, to raise the per capita income of union workers relative to the per capita income of the self-employed workers. It should be noted, however, that the influence of collective bargaining will be to increase the *total* share of the national income going to those types of self-employed workers who are in competition with union workers.

#### THE EFFECT OF COLLECTIVE BARGAINING UPON SHARE OF PROPERTY IN NATIONAL INCOME

How may collective bargaining be expected to affect the share of property in the national income? For some time the share of property in the national income (rent, interest, and corporate profits) has been

declining. This may seem surprising because capital per worker has been growing rapidly. Between 1879 and 1949, for example, capital per nongovernmental worker has increased over 2.5 times, but the share of property in the national income has dropped from around one-fourth in 1879 to about one-fifth in 1929, and to about one-seventh in 1948.<sup>13</sup> The decline of the share of property in the national income is explained by the fact that capital is not easily substituted for labor—in other words, by the fact that the elasticity of substitution of capital for labor is less than one. Hence the larger the amount of capital per worker, the smaller the share of the national income going to property.

Unless there is a sufficient rise in the elasticity of substitution of capital for labor, the share of property in the national income may be expected to decline. In the absence of a substantial drop in the proportion of incomes saved, capital per worker ought to rise more rapidly in the future than in the past because the rate of growth of population is diminishing. In the past, more than half of the increase in capital has been needed to provide the increment in the labor force with the average amount of capital per worker.

Is it likely that the effects of the low elasticity of substitution between capital and labor upon the distribution of income between employees and property will be offset to an increasing extent by labor-saving inventions? Are not collective bargaining and the increasing strength of trade unions likely to stimulate labor-saving inventions, thus retarding the drop in the proportion of the national income going to property?

It is undoubtedly true that the pressure of unions for higher wages stimulates technological progress, and labor-saving inventions will probably continue to predominate because automatic signals, automatic stops, and various recording and measuring devices increase the amount of apparatus which a man can handle. It is possible but not probable that industry will encounter such difficulties in raising investment funds that capital-saving inventions are stimulated more than labor-saving ones. The amount of industrial research is growing by leaps and bounds and will continue to grow. Hence inventions will be made more rapidly

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<sup>13</sup> Kuznets estimates that total real estate equipment and improvements in 1879, at 1929 prices were 30.0 billion dollars. (*National Product since 1869*, p. 230.) Of this amount, about 20.9 billion dollars represented industrial plant and equipment. The nongovernment labor force was about 16.5 million. In 1879, industrial real estate improvement and equipment per worker, in 1929 dollars, was approximately \$1,267.

At the beginning of 1949, total real estate improvement and equipment, at 1929 prices, was 268.9 billion dollars, of which 172.9 billion dollars represented industrial plant or equipment. The nongovernment labor force was about 54.3 million. Industrial real estate improvements and equipment per nongovernment worker in 1929 dollars were \$3,184. In terms of 1948 dollars, the amount was \$5,350.



than ever and labor-saving inventions are likely to predominate. I am skeptical, however, that labor-saving inventions will occur fast enough to offset the effect of the low elasticity of substitution between capital and labor. I conclude, therefore, that the rise in capital per worker will continue to reduce the share of property and to raise the share of employees in the national income.

The fact that capital is not easily substituted for labor suggests that trade unions, by holding out for a high price (simply one way of making labor scarce), should be able to increase the share of employees in the national income at the expense of property. Obviously, if capital were easily substituted for labor, the success of unions in raising wages would have the opposite effect—it would tend to increase the share of property in the national income. Unions may experience one obvious disadvantage in attempting to increase the share of employees in the national income by making labor scarce—namely, the method may produce some unemployment. Whether or not it does produce unemployment depends upon how readily men who cannot be absorbed in union industries seek self-employment. At any rate it seems clear that union efforts to encroach upon the income going to property tend in some measure to increase the number of self-employed and thus to limit the per capita incomes of the self-employed. To that extent the efforts of unions to gain income for their members at the expense of property owners are not successful.

I conclude that the share of property in the national income is likely to continue to drop, and that collective bargaining will tend somewhat to accentuate this drop. Since the share of property in the national income is only about one-seventh, the amount which union employees can gain at the expense of property is not large.

In view of the fact that an increase in capital per worker tends to raise the share of employees in the national income, there is a certain irony to recent criticisms by trade union spokesmen of the practice of plowing back earnings. This practice undoubtedly helps business concerns accumulate capital and accelerates the increase in capital per worker. Thus it helps unions achieve one of their stated purposes—a larger share in the national income.

#### INFLUENCE OF COLLECTIVE BARGAINING UPON RATE OF INCREASE IN OUTPUT PER MAN-HOUR

The great opportunity for collective bargaining to affect the standard of living of the community is by influencing the rate of increase in output per man-hour. In the past, output per man-hour has increased at the rate of about 2 percent a year. This means a rise of about 49 percent in twenty years. If the increase were 3 percent a year, the rise in twenty

years would be nearly 81 percent. On the other hand, if the rise were only 1 percent a year, in twenty years it would be only 22.1 percent. Is collective bargaining likely to accelerate or to retard the growth in output per man-hour? The answer depends upon how collective bargaining affects the efficiency of employees and management, how it affects the rate at which capital is accumulated, and how it affects the rate at which capital is improved.

Collective bargaining may be used either to enforce make-work rules and policies or to introduce schemes of union-management coöperation to increase output. Is collective bargaining likely to be widely used to enforce make-work rules or policies? I do not know, but I think not. There are a few conspicuous cases of unions that have limited output or that are seeking to do so. Examples are found in the railroad industry, the printing industry, and the entertainment industry. It is a striking fact, however, that only a few unions have enforced important limitations on output. This raises an important question, namely, if *some* unions restrict output, why do not *all* unions do it?

The explanation, I think, is fairly obvious. It is that the bargaining power of unions is limited and that make-work rules or policies ordinarily benefit only a small proportion of all members of a union. When I say that unions have limited bargaining power, I mean that they have only limited capacity to impose additional costs upon employers. The bigger the costs which unions seek to impose in the form of make-work rules, the smaller are the costs which they can impose through higher wages. Higher wages benefit all members of the union. Consequently, a union can press hard for make-work rules in preference to higher wages only when the make-work rules would be beneficial to all or nearly all members of the union. Under certain conditions, when employment in the industry is intermittent or when all the jobs controlled by the union are closely linked together by seniority rules (so that the creation of additional jobs would mean promotions for union members all along the line), a make-work rule might benefit nearly all members of the union. These conditions, however, are unusual. Consequently, I do not expect that unions will seriously limit the rise in the standard of living of their members by enforcing make-work rules.

Collective bargaining has produced a number of schemes of union-management coöperation. It will continue to do so. These schemes may never develop in a high proportion of enterprises. They seem to be particularly well adapted to high-cost plants or to enterprises which have special difficulties in meeting competition or in surviving. They help raise output per man-hour, and they are likely to be numerous enough to offset the cases where unions enforce make-work rules or policies.

Not to be overlooked is the fact that collective bargaining has many indirect favorable effects upon management and, hence, upon output per man-hour. For example, it compels management to be better prepared to justify its decisions. Consequently, it discourages snap judgments and encourages managements to provide themselves with more adequate information and to base decisions upon carefully considered policies. All of this is favorable to output per man-hour.

#### THE EFFECT OF COLLECTIVE BARGAINING UPON THE ACCUMULATION OF CAPITAL

How is collective bargaining likely to affect the rate at which capital is accumulated? There are three principal ways in which it is suggested collective bargaining might affect this rate: (1) It might increase the absolute volume of all incomes and of investment by raising the proportion of incomes consumed. (2) It might reduce the rate at which capital is accumulated by raising labor costs relative to prices. (3) It might raise the rate of investment by creating the expectation of rising prices. Let us examine each of these three possibilities.

1. The proposition that collective bargaining might accelerate the accumulation of capital by raising the proportion of incomes consumed assumes that investment has been held back, or at least is likely to be held back in the future, by a rate of consumption which is too low to permit full employment and the maximum level of incomes. It is undoubtedly true that the proportion of incomes devoted to consumption can be either too high or too low to permit the maximum level of investment. At a very low level of consumption, investment would be limited by lack of investment opportunities; at a high level of consumption, by lack of investment-seeking funds.

In an economy such as ours it is not likely that the propensity to consume is ever *so high* that it seriously limits the volume of investment. Shortages of voluntary savings, of course, frequently occur but they are offset in large measure by the expansion of credit. On the other hand, there are many times when investment would be larger if the propensity to consume were higher. In periods of contraction, for example, the drop in business would be limited if the drop in investment spending were accompanied by a sharper rise in the proportion of incomes spent on consumer goods. If the drop in consumer spending were less, the decline in investment spending would also be less.

All of the foregoing analysis makes sense. What does not make sense, however, is the proposition that a rise in wages relative to prices would increase the volume of investment by raising the propensity to consume. A rise in wages relative to prices could easily occur in the later stages

of a boom or during a period of contraction when prices are high enough to make the output of industry equal to the willingness of people to spend money. Under these conditions wage increases could not be entirely passed on in the form of higher prices.<sup>14</sup> Such a rise in wages relative to prices would undoubtedly raise the propensity to consume, but it would not be equivalent to a mere drop in thriftiness. It would also change cost-price relationships. Hence the rise in wages relative to prices would have two effects on incomes—a favorable effect and an unfavorable one. It would have a favorable effect by reducing the propensity to save (raising the propensity to consume) and it would have an unfavorable effect by reducing investment opportunities. One cannot be sure which effect would be greater. Nevertheless, experience indicates that a rise or fall of the price of labor relative to other prices has more effect upon investment opportunities and upon the immediate willingness of enterprises to make investment expenditures than upon the propensity to save. Hence, I conclude that a rise in the propensity to consume achieved by raising wages relative to prices would not accelerate the accumulation of capital by increasing the volume of investment.

2. Collective bargaining, by raising the price of labor relative to other prices, may reduce the rate at which capital is accumulated. Whether collective bargaining in the long run raises the price of labor relative to other prices will depend upon how collective bargaining affects the determinants of employment, particularly the volume of investment opportunities. It is possible, as I shall point out presently, that collective bargaining will create favorable investment expectations by causing men to expect slowly rising prices. On the other hand, if collective bargaining tends to create unemployment by raising labor costs relative to prices, the government may encourage an offsetting rise in prices—a rise

<sup>14</sup> Some economists, it is true, doubt that (output per man-hour being constant) the price of labor can be raised relative to other prices. These economists argue that wages are as much a source of income as they are a cost, so that a rise in the price of labor produces an offsetting rise in demand. This view overlooks some of the determinants of the volume of spending. The rate of spending is governed by a number of conditions, such as the amount of money which people hold in relation to their incomes and their expectations concerning the outlook for profits or prices. Hence a rise (or fall) in the price of labor cannot be expected to produce a precisely offsetting rise (or fall) in prices. By influencing the purchasing power of money and the ratio between incomes and holdings of money, a rise (or fall) in the price of labor affects the rate at which people spend money. By influencing expectations a rise (or fall) in the price of labor may produce either a more-than-offsetting rise (or fall) or a less-than-offsetting rise (or fall) in prices. Finally, changes in the price of labor under some conditions may have little effect or only perverse effects on shifts in the willingness to spend. Particularly in the early phases of a recession, when willingness to spend is dropping and prices are falling, increases in wages are likely to continue to strengthen rather than retard the drop in willingness to spend.

sufficient to maintain a satisfactory volume of employment.<sup>15</sup> If collective bargaining does raise the price of labor relative to other prices, it will reduce the rate at which capital is accumulated by reducing those incomes from which most savings are made. It will also affect the rate of saving by reducing the return on capital. There is a difference of opinion as to whether a lower return on capital would encourage or discourage saving.<sup>16</sup> The probable result is, I think, that returns below present ones would discourage saving.

3. Collective bargaining may tend to improve the investment outlook and thus to increase the ratio of costs relative to prices which is compatible with full employment. This result would be produced by collective bargaining's creating the expectation of a long-term rise in prices. I have pointed out that in the past the rise in output per man-hour has averaged about two percent a year. The rapid expansion of industrial research which has been going on in the past and which is likely to continue may make possible a faster rise in output per man-hour—possibly more than three percent a year as an overall average. This rate may be sufficient to prevent the wage advances obtained by unions from raising labor costs per unit of output, but I doubt it. If labor costs advance, an offsetting rise in prices will be necessary to prevent a rise in unemployment.

I have pointed out that if prices do not increase fast enough to prevent unemployment, public policy will need to encourage an advance in prices. Whether or not public policy will need to intervene, only experience can tell. It has been a normal characteristic of the economy for the volume of dollar expenditures to rise—in most years expenditures have been a little bit larger than in the preceding one. This tendency has been facilitated by the rapid growth in the money supply which has increased far faster than either the physical volume of production or the money value of production. Between 1879 and 1939, for example, bank deposits and money in circulation increased over twice as fast as the money value of the national product. This means, of course, that the rate at which money is spent has been slowly dropping. The sources of growth in the money supply have changed from time to time, but the increase has gone on. If the supply of money continues to grow fairly rapidly, the upward pressure of unions on wages may have the effect of limiting

<sup>15</sup> The rise in prices which will be necessary will depend upon whether long-run investment expectations are optimistic or pessimistic. The more favorably the future is viewed, the higher is the level of employment which is compatible with any given cost-price relationships.

<sup>16</sup> The question is whether the demand for future income in terms of present income is elastic or inelastic.

the long-run drop in the rate at which money is spent and of causing expenditures to rise a little faster than they would advance in the absence of collective bargaining. But if this does not happen more or less of its own accord, public policies will need to be developed to accomplish that result.

If collective bargaining brings about a long-run advance in prices, it will increase the supply of investment opportunities. Even the expectation of a slow rise in prices will raise the advantages of investing today rather than several years hence. Consequently, if collective bargaining creates expectations of slowly advancing prices, it will raise the ratio of labor costs to prices which is compatible with full employment. It is impossible, however, to assert that the rate of investment, and hence the increase in capital per worker, will be higher than in the absence of collective bargaining. It may be lower because the rise of labor costs relative to prices will tend to diminish the rate of individual saving at any given level of income. On the other hand, the expectation of rising prices may encourage the practice of financing investment by the use of credit, so that collective bargaining actually increases the proportion of the national product devoted to increasing capital per worker.

#### EFFECT OF COLLECTIVE BARGAINING UPON RATE OF IMPROVEMENT IN THE QUALITY OF CAPITAL

Although the effect of collective bargaining upon the rate at which the *quantity* of capital increases is uncertain, its effect upon the rate at which the *quality* of capital improves is quite certain. It is a safe conclusion that the pressure of unions for higher wages will encourage larger expenditures on technological research. The more rapidly money wages are expected to advance, the larger the amounts which it is advantageous to spend today in order to prevent rising wages from producing higher labor costs.

Pressure for higher wages from trade unions will probably not be as powerful a stimulant of technological research as some other influences. The growing body of scientific knowledge, the increasing supply of scientists, the stiff international military competition, the growing scarcity of natural resources, and the tendency for competition between enterprises to take the form of improvements in products all help to increase the amount of industrial research. The upward pressure on wages will be simply another influence among many, but it will be important. Possibly technological advance will so rapidly improve the quality of capital that output per man-hour will increase considerably faster than capital per worker. Between 1879 and 1929, capital per worker and

output per worker increased at about the same rate, but output per man-hour increased somewhat faster than capital per worker.<sup>17</sup>

#### SIX CONCLUSIONS

This analysis of the economic consequences of collective bargaining yields the following principal conclusions:

1. Collective bargaining, if more or less universal among employees, is not likely to be of much influence in helping employees as a whole to raise their per capita incomes faster than the per capita incomes of the self-employed. Collective bargaining may help employees gain slightly at the expense of self-employed farmers provided the political power of the farmers is not too great. Collective bargaining will help retard the tendency for the incomes of professional self-employed workers to rise more slowly than the per capita incomes of nonprofessional employees. To a small extent collective bargaining may help employees raise their per capita incomes at the expense of urban self-employed workers.

2. Collective bargaining is likely to help employees gain income at the expense of property owners. The proportion of the national income going to property owners will continue to drop so long as capital is not easily substituted for labor. Collective bargaining may be expected slightly to accentuate the rate of drop. Its net effect in reducing the share of property in the national income will be limited by its tendency to stimulate labor-saving inventions. The amount of income which employees might gain at the expense of property owners is not large because the income of property owners is only about one-seventh of the national income.

3. The net effect of collective bargaining upon the proportion of the national income going to employees will be small.

4. Collective bargaining is not likely to have much net direct influence upon the amount of output per man-hour which accompanies any given state of technology. A few unions may use collective bargaining as a device to enforce limits on output, but the number will probably not be large. A few other unions will find it advantageous to coöperate to help management raise output per man-hour by engaging in schemes for

<sup>17</sup> The effect of technological advance upon the productivity of labor and capital can be roughly indicated by the fact that in 1879 a worker with a given amount of capital produced about \$805 in 1929 prices; in 1929, with about 2.66 times as much capital, he produced \$1,803, or 2.24 times as much. If the quality of capital remained unchanged, one would expect the amount of product to increase more slowly than the amount of capital per worker. If product were expressed in terms of output per man-hour, it increased somewhat faster than capital per worker. The fact that output per given amount of capital increased while the number of man-hours per given amount of capital dropped, indicates the improvement in the efficiency of capital brought about by technological change.

union-management coöperation. The favorable effects of union-management coöperation will roughly offset the unfavorable effects of make-work rules or policies. In addition, collective bargaining tends in many ways to improve indirectly the processes of management and thus to raise output per man-hour.

5. The effect of collective bargaining upon the rate of increase in capital per worker is uncertain. It may retard the rate of increase by raising labor costs relative to prices, thus reducing the capacity of the community to save. This effect may be offset in part or in whole by the creation of expectations of rising prices, thus increasing the attractiveness of investment opportunities, and encouraging the financing of investment to some extent through the use of credit. The possibility that collective bargaining will produce a long-run rise in prices is not ordinarily regarded as a desirable result. Nevertheless, if collective bargaining does create the expectation of a long-run rise in prices, it will tend to increase the rate at which capital accumulates and will tend, therefore, to raise productivity and to increase the standard of living.

6. Collective bargaining may be expected to stimulate industrial research and thus to accelerate the rate at which the quality of capital improves. This last effect of collective bargaining is one of the most certain and is the one which has the greatest promise for helping the community achieve a higher standard of living.

Let me conclude these remarks by calling attention to the potentialities of the economy. It is difficult for most people to visualize the consequences of even a few years of growth. If output per capita were to grow no faster than it did during the forty years between 1889 and 1929, it would be about \$3,100 (in terms of present dollars) by 1980. This would mean an annual income of over \$9,000 for a family of three. This amount might be regarded, I think, as a reasonable target for the economy. It is well within the range of practical achievement provided the country is fortunate enough to enjoy peace and provided the people of the country understand that their well-being depends fundamentally upon the productivity of industry and are willing to make the encouragement of productivity a principal objective of public policy.



# Edwin G. Nourse

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THE PROBLEM of workable wage-price adjustment for a high-production economy had been a lively concern of my own thinking for some time before I incautiously accepted my place on the Council of Economic Advisers. I touched upon this issue in my Presidential address to the American Economic Association in January, 1943 and dealt with wages as an integral part of the pricing process in my book "Price Making in a Democracy." Wage and price adjustment became a center of council discussion from the start of our work in the fall of 1946 and successive rounds of wage advance have been discussed by us with the three consultative committees of union representatives who periodically sit down around our council table. The five *Economic Reports of the President* have presented wage and price comment and policy recommendations, and these have apparently been scanned for wage and price theory, explicit or implicit, to an extent that we, in the midst of the hectic process under which the documents are fabricated, have perhaps not realized they would be.

So I decided that I might make this the occasion for considering some issues of wage theory and practice that confront us as we explore the implications of the Employment Act. Hence my title "Wage-Price Theories and the Employment Act of 1946." Tonight I want to look back a little and forward a little to see whether there is discernible a theory of wage structure and wage relationships within our whole price system which would seem to have enough consistency and realism to claim consideration by economists, by union officials and members, and by corporation executives and individual employers.

## UNION WAGES AS ADMINISTERED PRICES FOR LABOR

First, as to my frame of reference, I start from the premise that wages are, and will continue to be, set predominantly by the methods of collective bargaining. That is to say simply that wage-rate-making is dominated by conditions of "administered" price or monopolistic competition rather than by atomistic competition.

As now administered, wages are probably more "sticky" than any other major category of prices in our price system except government-controlled interest rates and utility charges. That is, they are sticky as to downward adjustment. Our legal institutions—until the Taft-Hartley Act—have been quite lenient as to labor's monopolistic power and its

use, quite in contrast to the expressed national antitrust policy as to commodity prices and service rates. This raises two questions as to price administration through collective bargaining. The first issue is: Do the economic consequences of our collective bargaining by the administrators of blocks of economic resources so large or strategically placed as to have a significant repercussion on the functioning of the economy, point to the need of materially altering those institutions? This part of the question lies outside my present topic. I am certainly glad to leave it to others—including the members of the Congress as they try to steer a wise course between the Taft-Hartley Act and the Wagner Act.<sup>1</sup> The second issue is: Are there objective criteria or pragmatic tests of wage rates (and fringe benefits) which would furnish trustworthy economic guides to union and company negotiators and to government mediators or “fact-finding” commissions?

Merely to talk of collective wage-making in the idiom of administered prices is to suggest a hope that such rational formulas are attainable. But how? And would it be from within the presently known methods or from without? As to present methods (and the theory they embody), the very expression “collective bargaining” is a hangover from the day of individual price-making. What we need to do first in seeking to formulate a wage theory for conditions of large-scale unionism is to shift from the older concept of wage bargains forced through by the sheer power of either party to that of mutual adjustment in the light of economic considerations. That means that the negotiator must not insist on all that can in the momentary situation be secured by force and then cling tenaciously to that contractual position even when it proves unworkable and results in underemployment. This is not bargaining in its traditional functional sense—a process which clears the market and enables successive rounds of production to proceed through a series of workable terms.

With administrators of large units of labor supply and of labor demand facing each other, it becomes necessary, if the economy is to function well, that skillful bilateral economic adjustment be the pattern of wage-making practices. The growth of large unions has now put some labor-price administrators in a position of disproportionate strength, at least as to small or medium-sized concerns. Whether there is some innate

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<sup>1</sup> Although ultimately the Council of Economic Advisers would have to come to grips with whatever consequences flow from such Congressional determination. For Sec. 4(c) 3 of the Employment Act charges us with the duty “to appraise the various programs and activities of the Federal Government in the light of the policy declared in section 2 for the purpose of determining the extent to which such programs and activities are contributing, and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto.”

economic justification for the present institutional situation; whether it is a passing phase which is perhaps even now in process of reversal; or whether it is merely one of those anomalies which persist without much rationality and with no great harm, I shall, as I said before, leave to the 81st Congress and the state legislatures. I merely note it as the factual background against which to project my consideration of certain economic implications of such a legal or institutional situation. We need to ponder what operative conditions would have to be fulfilled to make the present structure workable on a high plane of economic efficiency before we can have valid answers as to what legal or organizational changes are called for.

#### POWER BARGAINS *vs.* ECONOMIC ADJUSTMENTS

I am not so naïve as to suppose that wage contracts can, under modern conditions of industrial organization, be drawn up along lines of national economic adjustment of the price system without the free participation of strongly organized unions manned by able negotiators. That much is needed in order to bring the full range of pertinent data under consideration and to see that it is adequately considered and competently analyzed. On the other hand, the mere fact that the union is strong in numbers, discipline, and executive personnel does not guarantee that negotiation will proceed on this plane. Unions as well as employers are still guilty of bringing "phony" figures and disingenuous reasoning to the bargaining table<sup>3</sup> and of seeking to force immediate gains instead of developing long-run workability. It is my observation, however, that over a substantial area of present-day unionism, there has been substantial advancement toward the sincere and competent use of economic data and of economic logic in contract making.

One of the conspicuous, strategically significant points at which this change might be noted was in the opening of wage negotiations with the General Motors Corporation by the United Automobile Workers, CIO union in October, 1945. The union's case was presented in a printed economic brief of seventy-six pages entitled: "Purchasing Power for Prosperity: The Case for Maintaining Take-Home Pay without Raising Prices." I do not agree with all the reasoning or the statistical evidence marshaled in support of the claims of the union. But I believe its officers and staff were trying to put collective bargaining on a new high plane of broadly conceived wage-price adjustment. They analyzed wages as purchasing power as well as profit return. They analyzed the profit margin as a predetermined element of the price formula in a situation of

<sup>3</sup> They are not under any such surveillance as are price makers under standard grade, inspection, and labeling laws, or public service regulation.

monopolistic competition and not merely as the traditional residuum which would stimulate and direct the subsequent flow of funds and entrepreneurship. Of course, the union brief failed egregiously to face or to foresee the disparity between producer prices and consumer prices of automobiles in a situation of scarce and only slowly expandible goods, and abundant and easily expandible monetary purchasing power, that is, the gray market epoch that was to ensue.

The significant point, however, is not whether the union's statistics and economics were absolutely good or bad, or whether the corporation's statistics and economics were better or worse than the union's. The significant point is that the corporation was too timid or too arrogant to join the issues on their merits with adequate disclosure of data and in mutual tolerance and desire to make both the union and the corporation function better as economic institutions important to the nation's economic health. Instead, they branded the union's interpretation of collective economic adjustment as "ideologic," "un-American," "fancy-Dan economics," and an invasion of the prerogatives of management.

It seems to me deplorable that a considerable number of labor spokesmen went along on this last proposition to the extent of saying that "prices are none of organized labor's business." They arrayed themselves on the side of free enterprise in the sense that both labor and capital should develop as great strength as they find possible and should then settle their wage problems through the exercise of that strength. Under the sellers' market conditions that have followed during 1946, 1947, and 1948, this has frequently meant simultaneous or promptly successive wage and price upping which has produced acceptable results for labor and management, but operated to the disadvantage of consumers. This linked action has been a not inconspicuous element in the inflationary spiral—as, for instance, the sequence of (a) miners' wages, coal prices, steel prices, railway costs and rate adjustments; (b) freight, fuel, and materials costs as a factor in consumer goods prices and the cost of living; and (c) cost of living as a basis of general demands for wage increases. While particular labor groups have gained in the process, many other workers have lost. The process has sometimes been given the harsh name "collusion" against the public.

#### THE ENLARGING INTEREST IN BASIC STANDARDS

Whatever the shortcomings of the immediate postwar effort to put wage bargaining on a nonmilitant and more intellectual basis and however disappointing its reception, that effort has not been abandoned and is, in fact, being expanded. I shall not attempt to prove this by the record of the United Rubber Workers, the International Paper Workers, or the

textile and shoe workers' unions. It is my belief that industrial unionism conduces to this approach, but both CIO and AFL have come out with policy declarations in favor of a broad move by the whole labor movement toward consideration of wage and related problems in the broad context of general welfare of the economy. Both these organizations and the Railway Labor Executives Association have set up very competent committees of union officials who, with their professionally trained staff people, sit around our council table from time to time.

The committee from the CIO has presented the President and the council with several documents which advance the view that there are fundamental principles of wage setting and of wage-price-profit relations, including farm price policy, which could be set down by a joint conference of labor, management, and agriculture. On August 12, 1947, they urged that "the President through his Council of Economic Advisers should convene all groups immediately to establish an agreed upon program which all management, labor, and agriculture will pursue." It should focus on the question: "What do we do to build and maintain on a long-term basis a permanent full-employment and full-production economy?"

About a year later, William Green in his presidential address to the AFL at Akron on Labor Day, 1948, said: "The American Federation of Labor calls upon our Government to request business and agriculture to join with organized labor in conferences to protect the economic security of our country. . . . The free enterprise system has proved in the past to be far superior to any other. But free enterprise does not mean anarchy, nor a policy of the devil take the hindmost. It must operate for the benefit of all the people, not only a favored few at the top."<sup>8</sup>

The council by no means brushed off the thoughtfully advanced proposal of our CIO committee. Rather have we asked: How many labor representatives can you send who will be willing objectively to consider the complex issues involved in the functioning of a total economy on a stabilized basis of high production? Will these representatives be prepared to make such concessions on behalf of labor as are necessary to get an initial formulation and a progressive method for testing these principles in operation and to make subsequent adjustments as need for them develops? Will you spare the top-rank men from their union posts

<sup>8</sup> Senator Flanders' subcommittee on business profits of the Joint Committee on the Economic Report of the President recently made a somewhat similar recommendation for "a conference between representatives of labor, agriculture, and management . . . for the purpose of establishing principles of economic statesmanship to which these great groups in our national economy would subscribe. It is hoped that guidance by these principles might bring inflationary pressures under control and result in more stable economic conditions."

to stay in session as long as needed to arrive at truly workable solutions? Will these representatives be given necessary powers of action by their constituents, and can they give the other parties reasonable assurances of compliance with the arrangements arrived at?

Our labor friends recognize the seriousness of these obstacles. So do representatives of agriculture and of business with whom also we have discussed the possibility of such a tripartite economic principle-and-policy conference. In all modesty the council has had to say on behalf of the economics profession: "We are not yet properly equipped to give the technical guidance which such a conference would need. No one yet has a profound enough knowledge of the infinitely complex system of economic forces and human (largely institutionalized group) behavior which determines the functioning of our modern industrial economy to have sure answers."

But quite possibly the best way to move ourselves toward such understanding is to combine the experimental method with our other tools of study such as theoretical and statistical analysis. If, after carefully considered formulation of the issues and marshaling of our respective economic analyses, we of agriculture, of industry, and of labor were all to meet in a working assembly charged with the task of synthesizing a comprehensive program of practical adjustment, we might all learn more in the process than from any other available procedure. The real question is whether in the last analysis we have the will to succeed, whether each of the several interests would submit to the self-discipline necessary to hammer out answers by the methods of science rather than trying to force a differential advantage for itself through the methods of group warfare.

#### HIGH EMPLOYMENT AS A PROBLEM OF ECONOMIC EQUILIBRIUM

What I have said already clearly identifies the Council of Economic Advisers with the quest for a theoretical, as well as operational, approach to the problem of getting stable, because economically sound, wage-price-profit relationships. We have a mandate under the Employment Act to bring systematic economic inquiry to bear on causes of instability and to make recommendations of private and public policies that would promote stability at high levels. In various publications we have, directly or vicariously, slipped repeatedly into the use of such expressions as "maladjustment in the economy," "disparity" between certain prices, or talked about "disequilibrium" or the "imbalances in the economic situation." We would be hard put to it to give a clear and convincing reply, if challenged, as to the precise meaning and the validity of each of these terms when applied to the given situations. We realize that a

great deal of formal economic theory and of theory behind accepted business practice will have to be re-thought before government action and private behavior will be even reasonably well directed to channels that make for sustained high-level use of our productive resources.

We believe, however, that progress can be made, and to that end, one of the five foci around which the basic work of our staff is organized is that of a Committee on Wage-Price-Profit Relations and Problems. Without fear that my personal remarks to you will handicap the intellectual freedom of this exploratory committee, I shall, in a moment, set forth a few lines along which I myself believe that the thinking of wage administrators and students of wage theory may profitably move.

First, however, I will state the major premise from which I approach this formulation of constituent issues. It is that the maintenance of high production, and the sustained high levels of employment and of consumption which that implies, require a fairly close approach to equality of return for comparable groups of labor—industrial, clerical, and agricultural—and between blocks of capital in situations of comparable risk. It would require also the avoidance of serious disparity between the amount of the joint product that went to capital as compared with labor's share, or to labor as compared with capital's share.<sup>4</sup>

This is not to say that you cannot have equilibrium without having high employment and production. Logic and history seem to give dependable though deplorable reason to think we could, through bad management, be brought to equilibrium at a rather low level of business activity under private enterprise operating through existing economic institutions. But I think it to be no contradiction to say that, although equilibrium within the system would not assure "maximum employment, production, and purchasing power," the development of severe or prolonged inequality of return after high production had been achieved, as during the last four years, would, if not corrected, surely destroy that high prosperity. That is, of course, no more than saying that using monopolistic or other power to bring about and maintain gross inequality of return, produces that bad allocation of total resources and that local overstimulation or local paralysis of effort that cause an economy to fall short of maximum production and to start a recession which, if allowed to cumulate, will pass into depression.

#### POLICY ISSUES—FIRST, WAGE LEVEL

Of the particular questions I want to note briefly, I begin with the level of wages and its relation to inflation, and of inflation to instability.

<sup>4</sup> Unless capital were widely distributed among actual workers, with variations in size of holdings not materially greater than differences in their rates of pay for work.

Does "full" employment under present conditions of unionism make inflation inevitable? I think the answer to that question hangs partly on one's definition of full employment and partly on his definition of inflation.

If full employment is made synonymous with the boom conditions that engender a deflationary "bust," then full employment would obviously be inconsistent with the goal of stability that is set up in the Employment Act. The term "full employment" does not appear in the Employment Act of 1946, its drafters having discarded that term in favor of "maximum" employment. One is left therefore to speculate whether it was intended that "maximum" employment should connote something different and, if so, what. Elsewhere the act specifies that the government shall use its powers to promote employment opportunities for all those "able, willing, and seeking to work." It would seem to me to be the most reasonable and constructive interpretation of the law to say that the employment objective was the maximum compatible with remunerative labor use at the margin, or with self-sustaining production. This would suggest optimum employment rather than, literally, a numerical maximum. It would imply a wage level that did not contribute to the kind of price inflation that would cause the cost of living of those outside the aggressively bargaining groups to rise faster than their incomes and quickly cause even the average wage earner to lose in cost of living what he gained in take-home pay.

In this sense we have had, in 1947 and 1948, inflationary over-employment, which used submarginal labor, resulted in high turnover with excessive cost of employee training, and unduly lowered labor productivity. Such a state of "maximum" employment conflicted with the cognate—or supreme—objectives of maximum production and consumer purchasing power. It also drew persons not really willing and seeking to work back into the labor force—to the detriment of household duties, desirable schooling, or well-earned retirement.

But supposing we do interpret maximum employment not to mean the low-point 2 million unemployed which was reached during the inflationary conditions of 1948, but some 3 to 3.5 million submarginal and transitional workers. This would mean keeping the unused or unusable fraction down to 5 or 5.5 percent of a labor force of 63 million. It would seem highly probable that, with the degree of unionization attained or rapidly emerging, with the bargaining skill and aggressiveness displayed by labor leaders, and the institutional or legal setting present and prospective, that wages in general would at that level of employment show a continuing uptrend. This, through the joint effect of rising labor cost and increased mass buying power, would be accom-



panied by a steady advance in prices. Would this kind of creeping inflation be compatible with the purpose of stabilizing high economic activity envisaged in the Employment Act? Or would it lead to instability and retreat to lower levels of production?

Those who believe that an advancing wage level is the most practical means for obtaining the objective of high sustained production argue that a general sustained rise in wages would act as a stimulus to productive effort, sustain the morale of workers and their organizations, give a good "tone" to markets for goods, and a firm foundation for business planning, for asset values, and for profits.

Such a wage-price policy would, of course, be something quite different from the "low-price policy" for which I have myself argued rather tenaciously in the past. That policy would call for distribution of the gains of technological progress primarily through price reductions<sup>5</sup> though to some extent going to the correcting of the wage-salary structure through raises of those already underpaid according to criteria of comparative productivity. It is obvious that, under strong unionism, downward adjustment of any who have been relatively overpaid is hardly practical. It is evident also that part of the productivity gains would need to go to capital to assure desirable modernization and expansion of plant and equipment. A low-price policy would enable farmers (with or without "parity" devices) and other self-employed or weakly situated workers to participate in the common progress of technology as also would pensioners, professional people, and dividend receivers. This last result would be desirable since this pattern of distribution would tend to hold profits to a moderate level.

A third position is advanced by those who would hold the price level stable and allow the wage level to advance by just the amount which would reflect average technological progress or the general rising labor productivity.<sup>6</sup> This formulation has a very persuasive quality for anyone seeking adjustment devices that would avoid both unstabilizing inflation and unstabilizing deflation. But neither the price level nor the wage level is more than a statistical abstraction quite remote from any market price or actual wage. There might be very sharp advances and equally severe declines at particular points in the price structure as a result of sudden change in technology, in consumer habits, or the exhaustion of old resources or discovery of new ones—quite at variance from the movement or stability of the average. If under such circumstances certain

<sup>5</sup> Or as a brake on general price advance if a pervasive force of monetary inflation were in process.

<sup>6</sup> See article by John C. Davis and Thomas K. Hitch in the *Review of Economic Statistics*, November, 1949.

unions, strongly led and strategically placed, forced a particular wage up vigorously, even ruthlessly, when and how would compensating reduction be made elsewhere? And could such local adjustments either up or down be made without unstabilizing consequence upon the region, the industry, or in due course the economy?

The issue between one and another of these theories of general wage-price adjustment is certainly not one of black versus white, of right and wrong, or of union officials, price administrators, or the Council of Economic Advisers becoming doctrinaire proponents of one distributive method to the neglect of every other. Wage raising and price lowering<sup>7</sup> have run concurrently in the past and both can probably be usefully invoked in practically advancing the basic purpose of the Employment Act in the future. On the sheer mechanics of this issue, the expansion of our national debt to its present size weighs heavily in favor of an advancing rather than declining price level in the near and possibly the longer future.

In terms of practical workability, the issue of economic stability will not turn so much on some theoretically desirable level of wages as on the practical workability of a particular wage in each of a myriad of specific employment situations. Both government policy makers and private price and wage executives must be more concerned with the wage *structure* than with the statistically derived level. They must be mindful both of ability to pay and incentive to employ. In an economic world half administered and half free, a better rationale of the relationships of specific wages, particular prices, and company profits must be understood and practiced by collective bargaining executives of both unions and corporations if we are to keep our resources steadily in use—as our goal is set in the Employment Act.

#### WAGE STRUCTURE AND ECONOMIC STABILITY

The wage-setting process under collective bargaining, instead of being concerned with bringing about a wage level theoretically correct in its relation to the general price level, has been a guerilla process of raiding

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<sup>7</sup> It is often assumed that reduced prices have a depressing effect on business or the businessman. This is no doubt true at any given spot where prices are being forced down by shrinking demand to unprofitable levels. But where prices are moved down by the sophisticated executive as improved technology or organization lowers unit cost and permits the enlargement of operations and the maintenance of reasonable rates of profit, there seems no reason to suppose there would be a depressing effect on business. Such price lowering stimulates both the productive and the consumptive process.

Also it is asserted that workers will be contented if they have rising wages combined with stable or even with less rapidly rising prices. But it would not be easy to prove that they would be more content with such a situation than with a stable wage level (which would not preclude the individual's working himself up) and a declining level of living costs.

the lush domains of "the bosses." That was exclusively the procedure until recently and it is largely that approach still. Unions have pushed up the wages of a particular group as opportunity offered, with little regard to the effect on other workers, ultimate results to themselves, or consequences for the economy. They have been disposed to argue that this was a beneficent process for all labor since competition would generalize the gains from one group to another, even of the unorganized.

If this were literally true in all cases and all workers were raised proportionately, the game would hardly be worth the candle. The ultimate effect would be simply to raise the whole wage level and the price level except as some gains of technological progress leaked back into the general consumer market. But, in fact, most unionism has not merely sought to raise the wage level on all parts of the structure uniformly but, on the contrary, has specifically aimed to maximize the gains of the strongly situated group even though it might be reasonably demonstrable that this was at the expense of labor as a class. "National bargains" have now incorporated the concept of standardization of return within a craft or industrial category regardless of geography—although with practical compromises to recognize, at least temporarily, local differences in cost of living or peculiar circumstances of individual employers. But there has been little attention given to the question whether wage payments in different callings should have any systemic relations one to another based on the productive character of the labor rendered. And yet it seems hard to conceive of a dynamically stable economic system based on voluntary wage-price relationships in which some approach toward such rationalization was not being made.

Possibly the coal-mining situation gives as good an illustration as any. It is easy to accept John L. Lewis as an architect of economic stability (even though he spoke in a different idiom) as he battled to raise the economic position of coal miners from a condition of poverty and squalor to one of remuneration, working conditions, and living standards favorably comparable to those of mechanics above ground. But how much farther can he advance the rate of pay from its present position at the top of the list without making his gains at the expense of other workers and worsening the prospect of going from postwar boom to sustained prosperity without a severe recession?

In the threatened railway brotherhood strike two years ago, the leader remarked plaintively: "Our brotherhoods have long been the aristocracy of organized labor, with wages well above those of all others. Recently other unions have overtaken or passed us. Now our lead must be regained." His ambition was not gratified and I suspect that if it had been, the result would have been unstabilizing rather than stabilizing to the

economy. On the other hand, the demand of the nonoperating railway unions, based on the statement that their pay was disproportionately low compared with the operating unions and with work similar to theirs in nonrailway fields, received favorable action from the fact-finding board. And within this group of unions, wage gains were proportionally larger in the lower paid categories.

May it not be that the aristocratic tradition of craft unionism will have to be revised to take account of democratic realities of modern industrial technology with its use of automatic machinery, assembly lines, time studies, and our modern system of universal high school and vocational training? The scarcity value of trade skill has waned, while the productivity of the "hand" with good basic education and adaptability has risen and the importance of the mass of workers as consumers has proportionately mounted as the productivity of our industrial system has grown.

Labor has long asserted the need of raising the remuneration of workers as compared with that of capitalists, proprietors, or managers. But there is also the possibility of raising the low end of the wage structure through recognition of a greater functional equality between railway engineers, truck drivers, factory workers, clerks, building trades, and farm workers than is reflected in present wage and price structures. May not some such leveling up be required if we are to have conditions of market distribution compatible with sustained high use of our resources?<sup>8</sup> To sustain maximum production under conditions of job opportunities for those able and seeking to work would seem to require that the purchasing power of all workers be raised to the maximum of per capita goods and services set by that production index.<sup>9</sup>

<sup>8</sup> The multiplication of job classifications and the quest for pay premiums for these differentiated skills, real or merely nominal, has no doubt, up to a point, tended to improve labor efficiency and act as a means of recruiting and directing the needed kinds and numbers of skilled and semiskilled labor to the proper places. But I suggest that it may go beyond the point of diminishing returns. The cost of the machinery for creating and maintaining this elaborate wage structure, bargaining its changes, and settling all the grievances and jurisdictional quarrels, must be a drain on both employers and workers. Granted that human beings need the incentive which grows out of chances for promotion, would not their motivation be as fully activated, and with less wasted effort and irritation all around, by a simple classification under a few dozen or a fewscore of significantly different grades of skill, training, experience, and seniority rather than the hundreds of differentiations now multiplied for bargaining purposes?

<sup>9</sup> Somewhat out of the ordinary in the breadth of its viewpoint is the position taken by the International Brotherhood of Paper Makers:

"Wages in the paper industry as a whole have been comparatively high since it first became one of the *organized industries*. Although many believe our wage rates are not as high as they should be today, the paper industry is still a high wage industry. Average annual earnings rank high among all other industries on the North American Continent. Many professions, even in these wartimes, are not providing comparable

The question of the desirability of a more or less differentiated wage structure and its relation to economic stability at high levels of production has particular applicability to the problem of the minimum wage. Employers characteristically argue that raising the minimum has a pervasive leverage effect and puts the whole labor bill up by a margin equal to the raise in the minimum rate. Labor on its part argues that the effect goes only a little beyond the workers directly affected and looks to this device to give added purchasing power to groups not reached by collective bargaining procedures; and that such rise in purchasing power is needed to support the mass market for goods produced by the middle and upper skilled groups. Until our theoretical and statistical apparatus for dealing with this issue has been improved, we as economists and economic advisers shall have little to add to present public and legislative debates at the "'tis'tain't" level.

Before we can have much confidence as to the kind of wage structure that will comport best with our goal of stabilized high production, we must push both theoretical and empirical studies of the relation of wages and prices to capital formation and the need for capital under the relevant conditions of production operations. Of many component issues, two are particularly suggested by the tenor of my discussion above. Would more money in the hands of the aristocrats of labor lead to less complete or less rapid spending and the rise of savings at a rate faster than required by the investment needs for that kind of market? Would raising the lower brackets of the wage structure relatively to the top brackets bring about a tendency toward underconsumption of the goods produced by sustained high use of present resources, or might it lead

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earnings. There are today many millions of employees of other industries earning 40 cents an hour and less.

"We are only a small part of our national economy. Sure, we make paper, and we are entitled to consideration, but someone else makes our clothes, builds our homes, provides our food, supplies the thousand and one other things which contribute to the comfort and enjoyment of our existence. The fact that we who make paper are a necessary part of community life imposes upon us a share of the responsibility for maintaining that community life on a sound basis.

"... The whole subject of purchasing power is a serious problem for our people. It is a problem for which there should be a reasonable solution. . . . When unions fight for wage increases, with a blare of trumpets, they are fighting for something for themselves only. The public doubts it is going to benefit from the fight, and often is worried lest any increase will be passed on to them in the form of increased prices. . . . To fight for an increase in wages of 10 percent is a popular move for a union to keep its members satisfied that the union is doing something for them. It is spectacular. It stirs the imagination. We can almost hear the jingle of extra dollars. It is wonderful! But again, it would not be as profitable to the workers in the mills as would be a 10 percent reduction in the cost of living." "Labor Unrest and Dissatisfaction," Report of the Study Made by the *Special Research Committee of the International Brotherhood of Paper Makers*, June 15, 1944.

to so fast a rate of current consumption as to produce the sort of capital starvation that our British cousins are being warned against?

The Council of Economic Advisers has already been accused of dangerous views in this general area. But we must often counsel when we are ourselves aware that research findings have not yet given us an adequate foundation. We bespeak the coöperation of the whole profession to accelerate progress in these areas.

#### ABILITY TO PAY—GENERAL AND SPECIFIC

The third point I wish to raise briefly is not distinct from the other two but represents a line of approach from which matters both of wage level and wage structure are being argued today. This is the issue of "ability to pay."

The General Motors Corporation in comment on the demands of the UAW in October, 1945 said that this was the "first time in history" when a claim to higher wages was based on the alleged ability of the company to pay more. As a matter of fact, labor had often before 1945 urged ability to pay as justifying a claim for higher wages whenever profits were large or labor scarce. And management had likewise invoked this principle, in the negative sense, by pleading *inability* to pay rates demanded. What is really new in the present use of this line of approach is the development and widespread acceptance of a concept of general technological progress as a source of generally rising real wages. General Motors has itself now become a leader in the use of a three percent a year general technological progress expectation as an escalator factor in its money-wage formula.

Obviously the ability to pay wages grows out of the productivity of the worker. Wages must, if stabilized activity is to be achieved, reflect that productivity quite accurately. But before we shall have a solid basis for judging how employers' ability to pay should be related to our wage system and our price system, two issues must be faced. First, what are the practical difficulties in applying the principle? Second, what are the theoretical implications of making the skyline of our wage structure coincide with the skyline of company productivity?

Let us suppose that workers and employers were to accept ability to pay as their basic proposition for wage negotiation. This simply gives them a norm or criterion upon which to proceed in the practical process of wage setting. Negotiators, however able and well intentioned, would still find it impossible to distinguish demonstrably the respective contributions made to product by labor, by capital, and by management. It is difficult also to disentangle properly the relations between physical productivity and value productivity. Employers' ability to pay is en-

hanced by price boosting quite as truly as by technological improvement. Cause-and-effect streams flow or can be made to flow in both directions. In the recent period of scarcity, the ability to advance prices has not been allowed to accrue to the employer only, but has been vigorously exploited as a means of raising wages. Indeed the weight of a strong union has in many instances been used to secure a wage increase that became the cause of, or the excuse for, an equal or greater price increase.

This brings out clearly the fact that in any attempt to use ability to pay as a criterion in wage making, distinction must be made between general gains in productivity and the special gains made in a given industry or by a particular firm (or even a department). Efficiency gains are quite specific in their incidence and the two, three, or four percent annual figures which are bandied about so freely today are unreal statistical derivations that have little relation to the actual ability of a particular employer to pay wages.

If from now on unionism uses its numerical or strategic strength to force wages up by two, three or four percent a year at all points on the theory that that is an average rate of technological progress and rising ability to pay, I suspect that the unions will force employers in many areas where that rate of progress is not being realized to try to raise prices against consumer resistance and that this would tend to lower volume, cut back production, and disemploy workers. Or the employers might simply dismiss workers rather than raise wages if they are convinced that their specific ability to pay is not rising. If either of these results followed, it would be harmful to our objective of maximum production and employment opportunity.

If the ability to pay that is used as a basis of claims for higher wages is specific profitability, another difficulty is met. Practical strain would be engendered by paying automobile mechanics more in General Motors Corporation plants than in Kaiser plants or paying more in the profit-making departments of the same factory than in the departments run at a loss to complete an integrated business. This would retard, not advance, solution of the question of what constitutes the really most workable price structure, already discussed.

But there is also a more basic issue of theory. In taking ability to pay or specific profitability as the criterion of wage-setting, labor is fully or partially putting itself in the position of residual claimant in the distributive process which was formerly claimed by and conceded to capital and more recently coveted and in part acquired by management. This is the essence of the subtle metamorphosis from capitalism to laborism which has been going on in our industrial system.

The issues that this raises are almost infinite in their ramifications.

I shall touch on only one or two, which in turn tie back to the questions of wage level and wage structure already discussed. It was the general theory of residual profits that they served as a device to attract and direct capital to the points of greatest need and thus of profit-making opportunity. Amid the fast-moving developments of these postwar years we must ask ourselves several questions concerning the future performance of this function. Does the use of labor's bargaining power to appropriate to itself more of the profitability of high-earning situations threaten the future supply of capital as the provider of more jobs or the machinery to make those jobs more productive and thus better paid or better rewarded through the lowering of consumer prices? Or will a larger transfer of these erstwhile capitalist profits into workers' pay envelopes, enable the latter, through their savings for the future, to maintain a fully adequate rate of capital formation and, at the same time, through current spending, maintain a healthy market for all current product?

If labor is thus to press its claims closer to the crestline of exceptional profitability it would presumably be attracting labor to the areas where the market says production needs to be enlarged. Will it also accept the implication that wages should be allowed to drop in areas where low profits or no profits indicate that resources should be withdrawn? If economic roles are to be shifted and capital return is to become a contract share while labor becomes the residual claimant, it would seem that more flexibility might have to be introduced into the wage system than is now contemplated in union wage theory. At all events, the theory and practice of ability to pay as a criterion of wage making must be searchingly examined for their implications as to maximum employment and production.

In closing, let me return to the *caveat* noted in my opening remarks. There is no formulated "wage-price theory of the Council of Economic Advisers," which has been here unveiled. I have merely been reflecting my belief that effectuation of the purposes embodied in the Employment Act will call for vigorous, even daring, re-thinking of formal economic theory and revision of some accepted business practices—managerial and union. The specific points I have made are in the nature of directional pointers to further exploration rather than dogmatic conclusions for which I could marshal adequate supporting material.

If they appeal to you as being in line with the real issues by which we are or will be confronted, I bespeak your aid in probing them further and giving the Council of Economic Advisers the benefit of whatever you find. We need your aid in exploring the practical possibilities of fuller and better sustained use of the nation's resources and the institu-



tions and practices by which that better use may be assured. I hope that in due time we may develop a series of symposia on important basic problems to which we may invite the most highly qualified specialists from Berkeley to Cambridge, from Minnesota to Texas. We need to distill the best wisdom of the profession to guide government policy-making.

# Wallace F. Bennett

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IT HAS BEEN truly said that I get a great deal more challenge and “kick” out of an audience like this than any other audience I face. I hope that what I shall say will find some response in your minds and hearts, because I am very, very sincere in the point of view I represent.

I am much impressed by the company that I am keeping in occupying this particular platform. As the list of men who have talked to you was read, I saw that most of them are either in the ranks of or on the side of professional labor; and I am reminded of an introduction that was given to me in a college in the East before a small class. The professor said: “This is Wallace F. Bennett, President of the National Association of Manufacturers. I think we understand each other very well, and it won’t hurt you to hear the voice of the opposition!”

I should like to begin by telling you why I, a comparatively small and certainly unimportant industrialist in America, have been interested in giving up this year of my life in the service of the National Association of Manufacturers. I remember my first and most terrifying experience: the day I was officially presented to the Association as its President. The first thing that happened to me was that I faced representatives of the New York press for a press conference—about forty of them. I had never had a press conference before, and one cannot imagine a tougher way to break a man into that experience. One of the questions that came out of the group was, “How is it, Mr. Bennett, that you as a small manufacturer are willing to become the mouthpiece of big business?” I should like to answer that question for you. I have had four months to think the answer over, and I am sure I did not do nearly as well in the immediate reply to the girl who asked it in the press conference.

The National Association of Manufacturers is not “big business.” It has 16,000 members, of which more than 11,000 are companies of the size of mine, with 250 employees or less; and about 5,000 have less than 50 employees; and less than 10 percent, or less than 1,600, have more than 750 employees. So NAM is actually the biggest small business organization in America. In talking for NAM, I am talking not for big business but for the manufacturers of America, more or less of the size of my own comparatively unimportant company, scattered all over these United States.

## FIELD OF ECONOMICS OF COLLECTIVE BARGAINING

The general theme of this Institute has to do with "the economics of collective bargaining." If I were prepared to stay with that subject, I am sure that it would be necessary for me to have somebody else write a speech for me, because I am no economist. I cannot remember whether I took economics in college, so I guess I didn't. I have had very little experience with the processes of collective bargaining—certainly no experience with the mass processes that are represented today by what is happening in Detroit and by what is happening over on this side of the Bay with Columbia Steel. So I am not prepared to talk learnedly about the economics of collective bargaining. But I should like to give you my impressions of the problems of the human relationships that exist in business, because it is only when these fail to function that this device we call collective bargaining is brought into action.

I think this will be a happier country when the device of collective bargaining assumes its normal role in American life. It is simply a device by which, under certain circumstances where employees belong to unions, formal agreements may be arrived at between employer and employee. But there are infinitely more employees who do not belong to unions and who operate harmoniously with their employers. This indicates that it is possible for men to handle their human-relationship problems successfully. It is that area about which I wish to talk to you today.

I started out by saying I should like to tell you why I was willing to accept this job. It is an interesting experience—something I shall never forget. It has its compensations, as does every job in which a man puts his time without financial reward. But my interest in it comes out of my own experience as a boy, and now as a father, and a grandfather.

I went into my family's business, which is now nearly seventy years old, when I left college; and in thirty years I have had the same kind of experience that so many American men have had: the experience of working my way through the various phases of the business and eventually finding myself with the responsibility of managing it.

I have a son, a GI like many of you in the audience, who is finishing up with college this June and who expects to come into the family's business as I did. I have a grandson. He is not worrying about business yet. He is not a year old.

But when you get to my advanced age, with a long white beard like mine, you begin to think about the future and you begin to ask yourself such questions as these: Has this son of mine who starts in next July, as good an opportunity to succeed as I had when I started thirty years ago?

To what can this grandson of mine look forward? What changes may take place in this American economy? And if they are good, what can I do to help them, and if I think they are bad, what can I do to prevent them?

So, in a sense, I am a little bit of a crusader. I am interested in my job, not for the sake of myself fundamentally but for the sake of you and the generation of my son, which is your generation, and the youngsters who are still coming on behind.

#### ANALYSIS OF PROBLEM OF FREEDOM

It seems to me that the fundamental problem that faces the American people today and which is focused on American industry, commerce and economic life, is the age-old problem of freedom.

We are not in any dramatic crisis in American history, but we are in a nonetheless important one; and in these years which are now immediately ahead, the American people are going to make a fundamental decision. The lines of that decision are rather clear-cut now. They are much clearer than they were even three years ago. That decision will affect our economic life profoundly. That is the decision to the question: "Are we going to continue for the future on the basis of individual responsibility, on the basis of private capital, on the basis of private initiative, or are we going to turn into the avenue that eventually leads to statism, state control, and eventually state ownership of the capital resources of this great nation?"

There are many alluring reasons held out to the American people to suggest that we can afford to give up a little bit of this thing we call freedom in the hope of acquiring security, in the hope of reducing personal risk, in the promise that we can somehow "stabilize the economy." We in America must very carefully weigh the pros and cons, measuring the risks and the results. I am sure you have no doubt that my personal philosophy is based on the traditional American concept of freedom, individual responsibility, and the extension of the system of private capital which has made us great.

It is a very simple thing for me to spin out the time by pointing to the past and attempting to persuade you historically that since this system has made us great, we should continue to support it. But that is not the answer to the question. That does not satisfy me and it certainly is not satisfying my son. I should like to examine the question from my point of view: What can be done by we who believe in freedom and private capital to provide some assurance that our individual enterprise systems can continue in the future to keep this nation strong and great and satisfy the demands that individual men have of life and a living?

It is not going to be very long when many of you will be occupying positions of responsibility, either as employees in corporations or as men operating your own businesses, or, if the turn comes the other way, as managers of property in a state-dominated, state-owned economy. What are the problems that you are going to face, and how can you face them best in this area of human relations? Is there any point of view from which we can approach the future in this area of human relations and give ourselves some assurance that this basic American tradition of freedom can be made to work in spite of the fact that our civilization is becoming more complex and our problems more difficult?

In Portland, on Tuesday I met a group of high school students, school-paper editors and student-body presidents. I was very much interested to have one young man, tell me blithely and without a second thought that this idea of preserving the American capitalistic system was a hopeless thought. "Why," he said, "the things that exist today were unheard of when you were a boy, and the American capitalistic system will be just as antiquated thirty years from now as those things will be. We're going to have government ownership of everything. It's just automatic." And the implication is that "You old fellows are just too silly to see it. You're just too dumb."

I do not think it is automatic. I think there is a better way. And I should like to try and spell it out for you for a minute or two.

#### PROBLEMS OF MANAGEMENT

What are the problems that face a man who has a responsibility for the management of human relations? I am sure I do not understand all of them, but I should like to suggest four or five.

First, there is the technical problem including organization, job classification, and all of those things. Many of you are being skilled in those fields. This technical problem includes organizing a company, operating it and maintaining it. I am sure you are getting that kind of training in schools such as this, the best that has ever been offered to men in America who stand on the verge of the responsibility for the management of industry. I certainly envy you. You start your job with an infinitely greater background than I did thirty years ago. After I got out of college thirty years ago, I spent my first year teaching school (and in the room here is one of my good friends who spent that year with me).

May I suggest that one of the fundamental human problems you will face when you become a manager in industry is the problem of teaching. You never get away from it. There is never a time when there is not a teaching responsibility. Most of the people who work in industry are not satisfied to stick on a humdrum job. They want a better job. They want

to know more about many things. So I hope when you graduate from the University of California you will take with you, if not some actual teaching training, at least some appreciation of the responsibility, and privilege, of teaching.

What have you got to teach? You have not only to teach the mechanical skills or the particular problems involved in a job, but I have come to realize that much of the unrest, much of the dissatisfaction, much of the labor disturbance, if you want to call it that (and I do not like to use words with capital letters), arises out of the fact that men and women in American industry do not understand what industry is, and how it operates. Too many of them just know that they have a job. They do not understand how their job fits into the whole operation. They do not understand why certain things that seem to them completely unnecessary must be done. They do not understand the language of business.

The best example I can give you of that arises out of the word "surplus." You go to your accounting classes and you learn what surplus is. It is something that shows up on the trial balance, in the lower righthand column after the list of the equity ownership, and it is a measure of the undistributed profits. But what is surplus to a man who does not know the language of business?

For three years the government has been selling surplus. It is stuff that is useless, that nobody wants, it is left over, it has no function. And there are many people in these United States who think that if a company has \$100,000 of surplus, it is money lying idle in the bank. Therefore they say, "Why don't they divide it up? Why don't they give us our share of the surplus?"

I think the best answer I heard to that one came from Mr. Hargrave, President of the Eastman Kodak Company. He has a program of plant visitation, and on one of those occasions a young woman teaching in the high school ran one of his women operatives down into a corner and said, "Why don't you make Eastman Kodak divide up their surplus? They have 100 million dollars, and you ought to have your share of it."

So the woman went to Mr. Hargrave. He is that kind of an individual, and his answer was a classic. He said, "I am perfectly willing to divide up the surplus with the employees and the stockholders, if that is what you want. But you will have to bring a wheelbarrow, because I will have to tear the buildings down and divide it up in bricks. That's where our surplus is."

The men and women of industry do not know its language; they do not know the simplest operative facts. One of the greatest steps that you as the future managers of industry can take when you become responsible, is to see that you become teachers to the extent that you prepare

to teach the facts about business to the people who make their living in it. That is one of your responsibilities in this area of human relationships.

Another one. You are a trustee. You become a trustee. You know the functions and the responsibilities of a trustee. A trustee must be disinterested; a trustee must be responsible; a trustee must see that the values given him are preserved. I have come to realize that the management in American industry is made up of men and women who must be trustees for two important trusts.

#### TRUSTEESHIP OF CAPITAL HERITAGE

They are trustees for a part of the great capital heritage that makes America what it is today. Since the Civil War every generation, up until the last fifteen years, has sacrificed to the extent that it has been able to save and contribute to this fundamental heritage of capital, an amount equal to twenty percent of its income; and that saving has provided the expansion by which our economy has been able to meet the demands of an ever-increasing population of people who always want more. If we are going to continue in the future to provide security for the American people we must continue to expand that heritage. As each one of us comes into the responsibility of management, he accepts a part of that general total capital heritage and manages it. He cannot consume it; he must preserve it—not for himself but for the generation ahead.

Today, one of the challenges to the future lies in the fact that there are many people in this country who believe that the time has come to spend that heritage, or part of it; that we should no longer be concerned with preserving and strengthening it.

What have we done? There are only three sources or three time eras, obviously, from which we can draw. We can draw from the past. And we have a tax policy in these United States which, in the form of inheritance taxes, is slowly drawing away little bits of this heritage and spending it for current costs of government.

Marx in the "Manifesto," you will remember, lists one of the ten ways to destroy the most advanced states: the abolition of all right of inheritance. Marx would destroy our fundamental capital heritage.

Another way in which our heritage from the past is being weakened today is our income structure. People are not able to save twenty percent of their income and put it into capital. For the first time since the Civil War, in the last fifteen years we have added nothing to that heritage basically. The last three or four years that situation has changed. Since the war we have gone back on the same scale, but most of that on the basis of borrowing rather than on the basis of saving. And as you look down into the future, we have already mortgaged your future for 250

billion dollars, and there is evidence that there are those in Washington who would be perfectly willing to double that without a qualm.

Before that debt has to be met I shall not be a manager in industry. You, or someone like you, will have taken my place and taken the responsibility for operating under that obligation.

Of course that debt must be paid through taxes. But the problem as I see it today is again one of approach. There are people in this country who think that we can support a tremendous government spending program and then tax enough to pay something off the debt. A man who is in debt (and I have been in debt all my life, and I am now) cuts his expenditures for other purposes in order to pay his debt. And the government should do that. A good manager in the American economy today would be concerned with ways and means of reducing government expense in order to have something to pay on the debt, instead of assuming that the resource from which the taxes are drawn is inexhaustible and that you can have everything you want and still have the responsibility of paying something off the debt on top of it.

Mr. Hoover and his commissions have indicated that they know where there are at least three billion dollars that can come off. And it is going to be interesting to see the reaction of the President. The President of the United States is in a very interesting dilemma at the moment.

On the basis of the Hoover report the President would be given the initiative in reorganization, and every president since before Hoover has wanted that. If the Hoover report is adopted, the President gets the initiative. And the inference is that the idea of government expense reduction will also be adopted.

It is interesting to see how those two balance themselves out.

It is perfectly normal, I think, when a man realizes that he is an heir and that there is a heritage for him, that he would like to spend it. It is only when you get older you begin to realize you are not an heir but you are a trustee. And that is one of the responsibilities we have as managers of industry. We are trustees of our share of that capital.

#### TRUSTEESHIP OF OWNERSHIP, MANAGEMENT AND CONSUMPTION

We are trustees in another respect. There are three great factors in this process of production and consumption which has made us great, and those three factors are, fundamentally, (1) the men who put up the money, (2) those who own a share of this capital heritage, and put up their time and work for a living, and (3) the men who buy the product—the consumers.

There was a time in American industry when traditionally ownership and management were lodged in the same hands. That is changing, and



in general, particularly through the device of the great corporation, with widespread stockholders, management more and more, as time goes along, assumes the responsibility of the trustee who tries to divide the production between the three great claimants.

It is obvious that the man who puts up the money wants interest on his investment. It is obvious also that the man who works for a living wants the highest possible compensation for his time. Something that is not quite so obvious is that the man who buys the product wants the best quality at the lowest price, and if he does not get it, he goes somewhere else and buys somebody else's product, thus eliminating the other two members of the partnership completely.

As trustees, you and I in management have the responsibility to sit in the middle and see to it that all three of these factors get fair treatment. And that is quite a responsibility. There has been tremendous emphasis during the last few years on our responsibility to see that the workman got fair treatment. Maybe, as President of NAM, I can be excused for speaking up for the man who puts up the money. During the last few years the man who has probably been least considered is the fellow who buys the merchandise, and one of the healthy things that is happening right now in America is the fact that he is coming back into his own. Competition is coming back to life, and success in business is going to be measured more by our ability to provide the people with what they want, at prices they will pay, than by any other device.

This thing we call a "stable economy" to me means the situation in which these three factors are in reasonable balance—not the kind of balance that indicates static, permanent relationship, but the kind of live balance in which each constantly gets a little bit out of line and the other two help to pull it back. You and I as the present and future managers of industry have that responsibility as trustees.

We have an additional responsibility as trustees. This is difficult to put into words, because I probably will be misunderstood. But I am beginning to realize, as I have opportunity to think about what management is and about what freedom is, that the national atmosphere we call freedom is not something that is created in Washington or created by a law. Freedom is a spiritual experience. You either feel free or you are not free. If we have a sense of freedom in America it will be because the men and women of America in their daily experience, where they live and work, *feel* free. So I am saying to my fellow employers around the country, "If you want to preserve freedom and particularly economic freedom, because that is the area in which we work, you see to it that freedom is a living, vital experience in the lives of the men and women who work for you."

## MANAGERIAL RESPONSIBILITIES

With that background, I should like to suggest further that every business organization is, in effect, a miniature state, and you as manager are going to become its chief executive. And this is one of the hardest things we managers in industry have to learn. You are going to become its chief executive. You are not only going to have the responsibility of administering its laws, you are going to have the responsibility of making them. You are the one who sets up the atmosphere in which men live and work. So you are the legislators; you are the court of last resort. So in this miniature state, you are the supreme court and you are the foreign minister, for you are the man who represents the organization to the outside.

Any of you who has had a little history realizes that there have been all kinds of states in the history of the world. There have been despots, both evil and benevolent; there have been dictators; there have been constitutional monarchs; there have been democracies. And the fundamental problem that we face in America, you face in the miniature state in which you operate. Are you going to run a business like a despot? Many people do, and that has been the cause of minor revolutions. Because people always, when they get strength, revolt against despotism; and I think that attitude on the part of many managers, that they are "the boss," is largely responsible for the fact that we have a problem that we label industrial relations.

Of course, in any organization there must be eventually one decision. And, in a small group, which is industry to me—because I am used to dealing with at most a couple of hundred people—and I think in a large group, there must finally be one ultimate decision. My point is that that decision must be colored, affected, or influenced, by a democratic process.

Now, if I sound like a socialist, I'm not one. I'm still a rock-ribbed capitalist, and I am still fumbling in my own experiences as a manager of business with the things that it takes to set up this kind of a democratic organization. But I do know that the closer I get to it, the better the organization that I have—the more efficient it is.

There are as many bureaucracies in business as there ever were in government, and one of the great problems that you will face as a manager is the problem of eating your way through that bureaucracy.

I was in a very interesting factory in Rochester a couple of months ago, and the president told me this tale. He said, "I have only had one labor problem in all of our experience. I was very proud of our record. On one occasion I invited a group of ministers to come down and have

lunch with me at the office and go through the plant. They were sitting in my office when my superintendent rushed in, face as white as a sheet. He said, 'Boss, the boys have all walked out of such-and-such a department, and I don't know what to do.' "

Well, the president did not know quite what to do either. So he did nothing—which is what business management usually does at the first impact. And he told me that the next morning as he was walking into the plant a stranger came up to him and he said, "You are Mr. So-and-So?" He said, "Yes."

"Well," he said, "I represent the men in such-and-such a department. I want to make a collective bargaining agreement with you."

He did the second thing that businessmen in that position usually do—he stalled.

He said, "Well, I would like to consider what to do. I will talk with you later."

So he went down to the department, and he saw union buttons on the men. And among the men he saw members of the glee club, the bowling team, and all of those devices.

He said to the men, "What is the trouble?"

They said, "Well, you had better talk to the committee."

So he called the committee in and he said, "Boys, what's the trouble?"

They said, "Mr. Swift, there has been something in this department that has been wrong for a year and a half, and we haven't been able to get that word to you. We haven't been able to pass it up through the supervisory procedures, through channels, and we just decided that you would pay some attention to us if we did it this way."

He said the men were absolutely right. Inside of three or four days the problem was handled, and the union buttons disappeared.

I am just offering that not as a typical example, but as an example of the fact that there are bureaucracies in business that can be just as deadly as bureaucracies in government.

#### SIGNIFICANCE OF HUMAN RELATIONS

The real fundamental problem, ladies and gentlemen, of human relations in business, from my point of view, is this problem of freedom. If the managers of American industry and you who are to be the managers of American industry can operate business like a democracy, and can realize that the people who work for us are men and women—that they have gone to work not only for the wages they get on Saturday night but in the hope that they can satisfy in their job the great human urges—the great human satisfactions for which all of us live—that they can grow—that they can do something worth while and have somebody pat them on the back—

that they can be respected as individuals—that they can be proud of the team to which they belong—that they can understand what it is all about—then in my opinion you have fundamentally achieved success in industrial relations. When this fails we turn to the use of other devices, other forces, just as men facing despotisms in nations turn to other than peaceful means to try to solve the problem that they think they face.

So the message I am trying to deliver to my fellow employers this year is wrapped up in that idea. If we who believe in democracy, who believe in freedom, who believe in the traditional American private capitalistic system, are going to preserve it, we have got to make it work. Not just at the front office, not just between meetings, but in the lives of the men and women who work in industry. To the extent that we are successful and sincere, then the course of America for the future is down the same path on which it has always traveled. But if we are stupid and selfish and shortsighted and, shall I say, despotic, then we will probably help turn America back into the old path of government control against which Washington and Franklin and Adams and others revolted less than two hundred years ago, and against which most of us would revolt as individuals today.

It is the hard way. It is not the easy way. But I hope there is some enlightenment in American industry, and enough hope in men and women like you, that we will be able to stay with it and preserve the kind of freedom which has made America great.

I realize that I have left you practically no time. It is a terrible risk to let me get started on my favorite theme. But if I have stirred somebody up, and if there be a question or two, I would be glad to try and answer it.

#### QUESTIONS AND ANSWERS

*Question:* If there is such a thing as unemployment; if private industry cannot, as it temporarily cannot today, fill the gap between employment and unemployment, should government step in or should this unemployment continue? I mean, if the unemployment insurance runs out and there is no job, or you do not hold the job long enough, should government step in? Or what should be done there?

*Mr. Bennett:* American people today feel that government should supplement or should supply this so-called unemployment insurance, and certainly America must not let its people starve. But sound solutions should be sought, not simply an acceptance of government dole immediately. And one of the challenges before American business leadership is this challenge of organizing at the community level the problem of supplying other employment, the problem of staggering employment, the problem of spreading the thing out.

There is no pat answer to that, and I should say at this point that NAM has no one program which would indicate the solution for all of these problems. We are facing the same old fundamental human problems that men have always faced. Christ said, "The poor ye shall have with you," and I am sure that he was right. But that does not mean that industry must not undertake the responsibility of that with any kind of an arrangement that seems to fit the particular situation.

*Question:* You spoke about management teaching labor the problems of management in order to see their needs. But what about management learning a little bit about the real problems of labor: better education, increasing the purchasing power, and things like that?

*Mr. Bennett:* I am glad you brought it up, because I have got sense enough to know that understanding is a two-way street fundamentally. And don't think that American management is not concerned with these problems, and don't think that most American managers don't understand them. I think they need to if they don't.

*Question:* Another point you made was that we ought to cut down government expenditures. I would like to know what part of government spending you would like to cut down, because much of it is concerned with government housing, social insurance, federal aid to education.

*Mr. Bennett:* I do not remember saying anything about government spending. Maybe I did. I am not sure what I say in these fifty-minute talks.

I am going to make an observation, and you may not like it. But I should like to bring you back to the idea that I have: that this basic capital of ours is a heritage and we owe something for its preservation.

Now, maybe we have come to a period of time when we have got to make some sacrifices. That is not pleasant. It is much more pleasant to think that the government will take this money and spend it on us. But maybe we have got to be patient and maybe we have got to work ourselves out of this the best way we can.

As far as government spending is concerned, one of the reasons that housing is a problem, of course, is because prices are high. One of the reasons that prices of everything are high is because the government is taking thirty-one cents out of every dollar that every man in America earns. Thirty-one cents.

*Question:* You spoke of the responsibility of management to those who provide the capital, those who provide the work, and those who consume goods. I should like you to comment on those organizations which combine those functions in one organization: namely, the producer co-ops and the consumer co-ops.

*Mr. Bennett:* This is a free country and we believe in free enterprise and if a group of men can band themselves together and do a more efficient job, either as producer co-ops or as consumer co-ops, they certainly have a right in America to do it.

But there is one little hitch, one little point I should like to make, not in the terms of consumer co-ops but in the terms of producer co-ops. We should all stand equal before the law, and one of the great problems in America today is the fact that the producer co-op does not pay its share of the taxes. So it starts with an advantage. And I do not think any of you believe that any segment of American economy should have an unfair advantage.

If a group of people can band themselves together and do better, by all means they should. There are many co-ops among manufacturers. Our company is insured in a mutual life insurance company, which is a co-op. So I certainly have no quarrel with that.

*Question:* I would like to find out what the NAM's policies or ideas are about maintaining free enterprise in view of the fact that we now have the necessity of technological integration in order to keep us from economic obsolescence.

*Mr. Bennett:* Well, you've lost me!

*Question:* In one word, monopoly is the result of technological integration.

*Mr. Bennett:* Are you starting with monopoly as a premise?

*Question:* I am starting with the technological integration which results in monopoly. How can you maintain free enterprise if it is necessary technologically to integrate in order to keep a nation from becoming economically obsolescent?

*Mr. Bennett:* I cannot accept your premise that it is necessary technologically to integrate. As a small businessman who has been operating a little business in a comparatively unimportant town in competition with many national competitors, I have found that there are still many opportunities for the fellow who has a little money and a little courage. I cannot accept your premise to start with.

# Maurice J. Tobin

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I AM DELIGHTED to have the opportunity to appear as a speaker in the series of lectures entitled "The Economics of Collective Bargaining" which is being sponsored by the Institute of Industrial Relations of the University of California. I am particularly pleased to participate in this series as it affords an opportunity for representatives of labor, management and the general public to present their views. There will of course be conflicting philosophies, but it is in forums such as this one that it becomes apparent that we can work together under our great American system of free enterprise.

## HISTORICAL THEORIES OF ECONOMICS

By a coincidence of history, in the year 1776 two significant documents appeared—one in this country and the other in Britain. Our Declaration of Independence, signed by the historic Continental Congress, laid the foundation of political democracy in its modern sense. The signers of this immortal document set forth a series of fundamental principles of human liberty and government. Their declaration that all men are "created equal" and are endowed by their Creator with certain unalienable rights gave new hope and meaning to the concept of democratic government as we know it today.

Abroad, in the same year—1776—appeared Adam Smith's *Wealth of Nations*, so well known to all students of economics. The author of this treatise on political economy also believed strongly in individual liberty but recognized that, even in his day, equal economic opportunities were not accessible to all. Writing at a time when few unions or guilds of craftsmen existed, and before the great industrial development of both Britain and the United States, Smith outlined a theory of wages based on the bargaining strength of employers and workers. Wages, he declared, depended upon a contract between workmen who desire to get as much as they can and employers who desire to give as little as possible.

However, Smith observed, while there will be a tendency to combine on both sides, masters are few and can unite easily while combinations of workmen are prohibited. Although wages, therefore, depend on a bargain, all the bargaining strength is on one side.

How prophetic and true were these observations. True, in large measure in our United States up to the time of the enactment of the workingman's "Magna Charta"—the National Labor Relations Act—159 years later.

Unfortunately, Smith then fell into the common belief of the times that if the workingmen's wages became "high," because of the scarcity of laborers in relation to demand, workers would beget more children and thereby, in the long run, "produce" more workers.

"It is in this manner," wrote Adam Smith, "that the demand for men, like that for any other commodity, necessarily regulates the production of men, quickens it when it goes on too slowly, and stops it when it advances too fast."

Several decades later David Ricardo, who dubbed economics the "dismal science," propounded the view held by many of the so-called English classical economists of the nineteenth century. Ricardo declared that the "Natural price of labour is the price which is necessary to enable the labourers . . . to subsist and to perpetuate their race, without either increase or diminution." This "subsistence theory" of wages persisted for many years.

Another popular theory—with, I suspect, some modern-day adherents—held that only a certain amount of money was available for distribution among workers. Any attempt, either by government or trade unions, to raise wages could not succeed. At best, proponents of this "wage fund" theory maintained, such attempts could only increase wages of one group at the expense of another group.

Later wage concepts, such as the "marginal productivity theory," became more elaborate and more refined. They also became more involved and I shall leave their treatment to your professors who are far more qualified than I to expound their strength and weakness!

#### MODERN ECONOMIC THEORIES

None of these theories, it seems to me, can fully portray, or explain, our modern society which cannot be adequately described in terms of laissez-faire economics. They depend too much on the "economic man," a sort of automaton, who had to react mechanically to the "laws" of supply and demand. Many variable factors, including the very important human factor, were minimized or completely ignored.

Moreover, until relatively recently, we tolerated a sort of dualism in our thinking. We accepted in large measure the political equality expressed by the signers of the Declaration of Independence while in our economic life we refused to acknowledge the inequalities which pitted the individual workers against the resources of a large employer or great corporation.

For example, early in this century (1902) the president of the Philadelphia and Reading Railroad, which at that time also owned many anthracite mines, declared during a miners' strike: "The rights and



interests of the laboring man will be protected and cared for, not by labor agitators, but by the Christian men to whom God, in His infinite wisdom, has given control of the property rights of this country."

Compare this bald statement, if you will, with the following enlightened comment by one of your prominent Pacific Coast employers, J. D. Zellerbach of Crown Zellerbach Corp.: "Regardless of the way the experience began . . . most employers today believe in the principles and actual practice of true collective bargaining. They believe that it promotes stability in our economy and that it is a wholesome exercise in real democracy. They recognize that wage earners man their jobs and deliver their services best under conditions which have been established by agreement on wages, hours, and working conditions."

But, to bridge the past and reach the present without departing from the theoretical economists, let me recall to you the down-to-earth definition of economics by one of the outstanding later classical economists, Alfred Marshall, whose *Principles of Economics* progressed through eight editions between 1890 and 1920. In speaking of the "substance" of economics this scholarly Englishman defined economics as "a study of men as they live and move and think in the ordinary business of life."

To me this realistic definition of economics brings forth visions of the long struggle of workingmen to improve their lot, to form unions for their mutual protection and advancement, and to go forward "in the ordinary business of life" on an equal footing with their employers.

Within this framework, or concept, I should like to move on to the "Economics of Collective Bargaining" as we view it today.

#### BASIC PRINCIPLES OF COLLECTIVE BARGAINING

Several factors are basic and vital to the discussion.

First, we must insist upon the observance and practice of freedom—freedom of enterprise for employers and freedom of association and bargaining by groups of workers. This includes, in our democratic society, the right of workers to withhold their labor, if they so desire.

Second, the services or toil of workers cannot be regarded as a "commodity" to be bought or sold at the lowest price. Workers, wherever they may live and whatever their nationality, race, or creed, must rise above a subsistence level. And in this connection let me reject most emphatically a suggestion sometimes made that a "little" unemployment would be a good thing; that it would "soften" labor and "ease the market."

Third, the role of government, in the collective bargaining process, is not to shape the nature or end result of negotiations, but only to establish fair standards of conduct and equality, and to proffer aid when the parties become deadlocked. The Department of Labor has con-

sistently held the view that labor peace can best be promoted through reliance on the methods and procedures of free and voluntary collective bargaining and that the function of government in regulating labor-management relations should be confined to assuring the greatest possible degree of equality for both parties at the bargaining table.

We have thus progressed since the days of Smith and Ricardo and Marshall. Indeed the advances have been so great, particularly since 1933, that great institutions of learning, such as the University of California among others, have wisely established institutes, or centers, of industrial relations. And, in founding your Institute of Industrial Relations in 1945, you very aptly set forth the need for the study of labor-management problems in these words: "Few areas in the domestic social life of the Nation are vested currently with greater public concern than the field of industrial relations. The development of better relationships between organized labor and organized employers, and the integration of these relationships with the interests of the individual citizens and the Nation as a whole, constitute one of the most serious problems facing our economic and social system today."

Your program, as I understand it, is not directed toward the special interests of either labor or management, but rather toward the public interest. That is as it should be. I commend your objectives and congratulate you on your progress.

The future is before us and our task is great. You in your schools and universities throughout the Nation and we in public service have a large clientele: some 148,000,000 American men, women and children.

We have a labor force of approximately 60,000,000 and an organized trade union movement of over 15,000,000. We have hundreds of thousands of employers, large and small.

No one knows precisely—for no census has ever been taken—the actual number of written collective bargaining contracts in effect in the United States. We do know that some 60,000 or 70,000 local unions function throughout our economy and that many of these unions, particularly in the crafts such as printers, building trades, and the services, regularly negotiate a number of agreements with local employers. The International Association of Machinists, for example, has reported it has more than 10,000 contracts. We can conservatively estimate, therefore, the existence of over 100,000 labor-management agreements covering probably upwards of 15,000,000 American wage earners.

Employers, like workers, have found advantages in association. Accordingly, management representatives in bargaining often speak for many employers, as is the case, for example, in maritime, lumber, paper and pulp, and other important industries along the West Coast. In a

few instances, the bargaining is on a national or industry-wide scale, as is frequently the case for railroads and coal mining. More than four million workers, it is estimated, were covered in 1947 by agreements negotiated between unions and associations or groups of employers.

Certain groups of workers such as those in agriculture are faced with different problems when they attempt to organize. The same moral principles, however, should apply to them as to industrial workers and they too should have the protection of the United States Government in their attempts to organize.

These, then, are the "parties" involved in collective bargaining.

The area, or subject-matter for bargaining has, as we know, steadily widened through the years.

That is where "economics" enters into modern negotiations on a large scale.

#### MODERN TOOLS IN COLLECTIVE BARGAINING

By and large, the "vest-pocket" days when a union business agent and an employer bargained on the basis of a few hastily jotted-down notes on a scrap of paper have gone. Today, skilled negotiators have at their disposal series of economic data depicting trends and current levels of wages, prices, profits and a host of other "facts and figures." During the past decade labor organizations have employed many prominent economists to assist them. They have also sent promising leaders from their ranks to universities and special labor institutes to receive formal training in the analysis of economic problems. Unions have hired college-trained graduates to assemble facts for their bargaining. Almost one hundred, or nearly one-half, of the national and international unions now maintain "research departments" to assist in the preparation of economic data for collective bargaining purposes.

Employers likewise have their own staffs of economists. These are supplemented at times by well-equipped research bureaus maintained by their trade association or central bargaining agency.

Various government agencies, in the forefront of which I would place the Department of Labor's Bureau of Labor Statistics, provide impartial data for use by both employers and unions. I can testify from personal knowledge of the widespread extent to which these data are utilized across the bargaining table. We are all familiar, of course, with the contract negotiated last year between the General Motors Corporation and the CIO United Automobile Workers wherein wage adjustments for a two-year period are to be made in accordance with the BLS Consumers' Price Index. This is but a single—perhaps dramatic—illustration of reliance upon unbiased facts in bargaining. It is repeated daily throughout the year.

But it should be made abundantly clear that economics, or economic data, cannot supersede or take the place of collective bargaining. Economics is a tool to aid in the solution of our complex problems. The facts which it produces, and the analyses which flow from these facts, may be subject to many qualifications, interpretations, or limitations when applied to specific bargaining situations.

An illustration may be helpful: In the case of the General Motors Corporation and the UAW the parties in May, 1948 agreed to a cost-of-living type of settlement. Concurrently with the negotiations with General Motors, the Auto Workers' Union and the Chrysler Corporation were likewise seeking to renegotiate their contract and thereby end their work stoppage. Obviously, the same set of general economic and price data were available to these two groups of negotiators but they reached a different settlement. Instead of an automatic cost-of-living adjustment they agreed upon a straight wage increase of thirteen cents an hour with provision for a review of wages this June.

#### INFLUENCING FACTORS IN COLLECTIVE BARGAINING

Many labor-management controversies arise, in the first instance, from largely noneconomic causes. Employers have opposed and workers have fought for the preservation or strengthening of "union security." Even the recognition of a bona fide union is still sometimes resisted. I believe that agricultural workers in your state have experienced some difficulties on this score since the end of the war.

In such cases it might be claimed that since issues of wages or other "money costs" are not directly involved, no question of "economics" arises. This conclusion, however, would be misleading. The formation of a union is, in itself, an economic act. Its objective might be termed the "coöperative marketing" of labor through which workers, in the language of the economist, offer their services on the most advantageous terms. It seeks the equalization of bargaining power which Adam Smith visualized but which was precluded by the conspiracy laws of his day.

Admittedly, therefore, economic motives are powerful. I would not go so far as to say, however, that they are always paramount or even persuasive in collective bargaining. At times economic factors—trends in output, labor productivity, profits, prices, and purchasing power, to cite but a few—have impact upon an even more unpredictable human element. Matters of principle and social consciousness (unjust discharge, discrimination, or denial of an earned promotion) will stir the emotions of workers. Strong personal convictions and sudden outbursts of temper occasionally arise to outweigh what impartial observers might call the "economic realities" of the negotiations.

Under such circumstances it is not surprising that recourse is sometimes taken to "tests of economic strength"—the strike or lockout. Free collective bargaining presupposes these occasional stoppages and, in fact, the very possibility of a strike or lockout is an "ever-present pressure toward agreement," as was noted in the Report of the President's Commission on Labor Relations in the Atomic Energy Installations, April 18, 1949. Even the occurrence of a work stoppage often provides a constructive lesson for the future.

#### CONSIDERATIONS OF THE TAFT-HARTLEY ACT

Let me speak a little about the Taft-Hartley Act as it seems to be a subject of general interest whenever we talk about collective bargaining. A comparison is sometimes made between it and the Wagner Act, which is in effect a most simple law. The Wagner Act guarantees the right of workers to band together in collective organization to deal with their employers; and then in turn the government requires that the employers deal with them if a majority have voted that they do want an organization. The Wagner Act is simply that and nothing more, and it was absolutely essential, because it was perfectly evident that powerful employers in America were not going to permit their employees to organize. As one of the evidences, United States Steel was able to prevent organization of their hundreds of thousands of workers up to the year 1936, the year after the Wagner Act was enacted.

The Wagner Act is helpful to the entire economy. It is helpful to the manufacturers of the country, to the retail merchants and to professional men. Its very preamble states that it is enacted to avoid future depressions and to stabilize wage rates in industry and between industries. But what it really does is to protect the right of workers to organize and to deal with their employers and then it requires that the employers deal with them. It is as simple as that!

Under the Taft-Hartley Act the Government of the United States is in most cases an unwelcome guest at the bargaining table, because it has laid down the conditions of bargaining in altogether too many instances. Free collective bargaining calls for free decision on the part of free management and free labor. Taft-Hartley is not a just law because it does not treat both employer and employee with equal justice. I shall cite just one example to illustrate. There are mandatory injunctions against workers for unfair labor practices. There are no mandatory injunctions against management for unfair labor practices. Management could commit the most flagrant unfair labor practice, and that unfair labor practice would follow about nine thousand cases which are now before the National Labor Relations Board and might be adjudicated eighteen months to

twenty-four months from now, when a struggling union would no longer be in existence. Whereas if a struggling union in its attempt to organize were to throw a picket line across and another union attempted to help them, that would be an unfair labor practice and an immediate and mandatory injunction could be granted. The word in the Act is "shall." The General Counsel of the National Labor Relations Board is compelled under the Act to proceed forthwith to procure an injunction.

In addition to that, the Taft-Hartley Act compels one union man to strikebreak against a fellow union member in the same local by compelling him to work on struck goods, if you shipped them from plant to plant.

The Taft-Hartley Act offers a solution for dealing with national emergency strikes. A fact-finding panel is appointed and it then proceeds to report to the parties to the dispute the facts that both parties knew beforehand. That is why they were having the dispute. The greatest mistake made was that the panel did not make a recommendation for settlement of the dispute. Your administration has a present proposal for specific recommendation for the settlement of the dispute after fact-finding. I said to the press this afternoon, "Did you ever read in the newspapers the complete report of the fact-finding panel, the position of both sides?" They answered that it is not interesting reading. But were they to make a recommendation for the settlement of the dispute, you would see it published in every newspaper in America and public opinion could be brought behind something concrete to bring about a settlement. That is why I say the administration's proposal adds strength to the Taft-Hartley arrangement.

And I might add one other fact in order to correct a misconception which the American people have about the Taft-Hartley Act. They believe that they have a great protection in it against a strike in a national emergency. That is not so. Because at the end of the so-called "cooling off" period, they can go out and strike just as long as they possibly want. The Attorney-General has rendered the opinion that the President of the United States has inherent power to take such action as he needs in case of a grave national emergency. Grave national emergencies do not occur very often. Will Davis expressed it as "probably once in a generation," and he is one of the outstanding labor-management authorities in the United States.

You are of course familiar with the clause in the Taft-Hartley Act which gives the employer the right to refuse to bargain with a union that fails to file the non-Communist affidavit. Now nobody hates Communism more than I and I stated to the Congress that this clause should not be in the Taft-Hartley Act. It should not be in a labor-management

law because we should get back to the simple proposition of what was the purpose of the Wagner Act. It was to protect the right of workers to organize. The great changes brought about by the Taft-Hartley Act were designed for the purpose of confusing and interfering with that right of American workers.

I believe that the whole program of Communism should be dealt with in an over-all way. I have no serious objections to having the non-Communist oath in the Act, but I think it would be better if it were handled as a separate matter. I was told today about a local union which attempted to remove five Communists from their organization. They were denied the right to remove them under the Taft-Hartley Act because there is no way by which a union can remove members after trial except for nonpayment of dues. So you can see that Taft-Hartley works in some very, very peculiar ways. This union wanted to rid itself of five Communists and it was not able to do it. They had to retain them in their organization.

Concerning closed-shop contracts, I believe that when management is willing to sign such a contract the Government of the United States should not under any circumstances deny management that right. There are many conditions that a great many Americans do not understand about the closed shop. In most of the trades that have the closed shop, the men who are members of those organizations have apprenticed and have spent probably four to six years as apprentices under the tutelage in some instances of instructors of the union organization in their particular crafts or trades. There is a great coöperation between management and labor in the development of these particular crafts. There are questions of standards, and the like, that are factors. Then there is the tradition that has grown up over a period of a hundred years in this country in which many union men will not under any circumstances work with a nonunion man in a given class, craft or trade.

In my own state of Massachusetts, the closed shop was declared legal in the year 1848—a hundred and one years ago—by a court decision. So why should we in the year 1949 take from American workers a right they had? But remember that the closed shop has to be agreed to by management before they can get it. And I do not feel that the Government of the United States should deny free management and free labor from entering into that kind of a contract.

We have still a large group of people in this country who have been reluctant to take advantage of the benefits derived from collective bargaining. I speak of the clerical, technical and semiprofessional classifications. It is hard for me to say just why this is the case because I do not know any group which needs the help of collective bargaining with their

employers as much as this one. Their reluctance is probably due to the feeling that they are superior, which I think is a great mistake.

Through the functioning of the National Labor Relations Board, the Administration has a proposal for dealing with the jurisdictional strike problems in the new act. This board is given the authority to handle jurisdictional disputes. Immediately such disputes arise the board sends an examiner into the scene of the situation in order to study it. A decision is made which is passed along to the National Labor Relations Board for their approval. The board is to use the experience of past decisions by any organizations that have made decisions on jurisdictional disputes. We hope that eventually we shall build up a body of law on jurisdictional disputes comparable to the manner in which old common law was built up and, once a decision is made, it is binding. It then becomes nationwide for all time in that particular type of dispute and within a short period of time there would be a body of decision that would be extremely helpful in the achievement of elimination of jurisdictional disputes.

In the event that a union refuses to abide by the decision, under the Administration bill, the National Labor Relations Board is to go into the local Federal District Court and get a cease and desist order to compel compliance with the order of the board.

#### COLLECTIVE BARGAINING AS A BULWARK TO DEMOCRACY

Finally, I should like to emphasize the role of collective bargaining as a bulwark to our democratic way of life itself. We know from the tragic event of the last decade that the first step along the path of totalitarianism is the destruction of a free labor movement. The right of workers to form unions, to seek to improve their economic status, and if necessary, to withhold their services is utterly foreign to the dictator and the would-be dictator.

No group realizes this stark fact better than the working men and women of the United States. No group has labored more perseveringly to combat the tide of totalitarianism than the members of our trade unions. They have seen their fellow unionists in many countries face death or be forced underground. They have aided, and are now aiding, the rebuilding of these shattered labor movements, particularly in Western Europe on this side of the Iron Curtain. They have helped and are helping free trade unions in doing, what I think you will agree, is a wonderful job; and I further want to say they are doing an outstanding job in ridding their own organizations of Communists.

The endorsement of the European Recovery Plan by the AFL, CIO, and leading unaffiliated unions, and the participation of their repre-



sentatives in carrying out the program of the ECA testify to the concern of American workers in the preservation of a free society and the dignity of man.

This concern and interest is a part of our heritage, a heritage in which the concepts of political freedom and equality were slowly and sometimes bitterly translated into their economic equivalents through the gradual evolution of trade unions as a defender and advocate of our free institutions.

This relation between economic and political freedom suggests the course we must follow if we would strengthen and preserve our democracy. As Senator O'Mahoney recently stated: "If we would preserve democracy in government, we have no choice but to preserve industrial democracy . . . If private capitalism would save itself, then it must first help to save democracy."

The Labor Department of your federal government at the present time has an active program for furthering an understanding in industrial relations. It probably has more public committees dealing with labor-management relations than in any other governmental department. We have them in the field of apprenticeship training, in industrial safety, in international labor relations, in advising on the Walsh-Healey Act under which the Secretary of Labor establishes the minimum wage that is to be paid on government contracts by given industries; we have those self-same committees functioning under the Davis-Bacon Act as advisers. Generally we have a tremendous number of committees in which labor and management function, and I believe that is a great help towards better labor-management relations. But the moment that we can eliminate the Taft-Hartley Act I am going to use every power of the Labor Department to bring about better labor-management relations, and I think that one of the barriers that now exist between management and labor in the United States will be eliminated.

I am frequently asked whether I feel that we are entering a period or will enter a period in the next few years of large-scale unemployment and if so whether the Administration has any plans to deal with it. The Full Employment Act was passed in 1946 and in the event that such a situation arises this act can promptly be implemented. I believe, however, that it is the duty of government to prevent such a situation from arising. To do this we could enact a Fair Labor Standards Act with increased coverage probably adding four million workers not now covered, and limiting them to forty hours a week with a penalty payment for time and a half for overtime. The repeal of the Taft-Hartley Act will also be a factor because of the increased purchasing power those people will have because of increased incomes as a result of the fact that they have the right to band together in collective organization.

We have a floor under the economy in this country that will prevent any depression comparable to the ones we experienced in the past. If we can get back a labor-management law that will have free management and free labor settling their problems, that will encourage the organization of the unorganized, I think we can go forward in the next several years without the slightest worry. But it is the duty of government, and we certainly have had a good many experiences in the last sixteen years that should stand us in good stead in charting the proper course, to see to it that we have full employment in the United States. And by full employment, I mean to try to keep it at a level no greater than two million unemployed.

Government must serve all. We must enact the social and economic legislation necessary to provide a better way of life for all our people. This can and must be done through democratic means rather than totalitarian *fiat*. God gave man a brain and soul. I have no doubt that He intended that man should use these precious gifts. Democracy is the form of government through which men can best control and order their destiny. Totalitarian governments invariably deny the existence of God, refuse to recognize the dignity of man, and destroy individual initiative. We must guard against totalitarianism from within and from the outside. We must fight against destruction of individual economic and political freedom. We must do everything within our power to preserve the freedoms that are guaranteed under the Constitution, and I believe that we are doing that fairly successfully in the United States.

# William Green

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I AM HAPPY to meet and to greet you and visit with you for a short period of time on this pleasant occasion, and I hope that I may bring a message that will inspire thinking that will be helpful to you and that will serve to make some contribution to your thinking and your study here at this great university.

Having had an extended experience in collective bargaining, I would like to discuss the economics of it from the point of view of a responsible union executive, which includes something of economics as well as wage-earner progress as human beings, as residents in a community, and as citizens of a nation.

## EARLY BACKGROUND FOR COLLECTIVE BARGAINING

Our economic system is not self-operating and is constantly modified by the human beings operating it. The first union policy which I sponsored and sought to establish was that collective bargaining was the road to sustained progress for wage earners and much more fruitful than strikes. But we found that we had to first establish collective bargaining as the essential institution in labor relations. A problem to enunciate and have recognized was that of establishing the principles controlling relations between those who gave employment and wrote work orders, and those who carried out work orders and manned the production processes.

Workers sought to extend the normal business practice of contract to the field of labor relations and thereby make the terms and conditions of work a matter of mutual agreement. But mutuality is the heart of contract and assumes equality of negotiators. In order for workers to have equal footing with those who provide employment, workers must act collectively in accordance with group policies.

Discipline develops out of the will for progress and a determination to see it through. The primary union functions are to promote labor's welfare and advance the workers' economic interests. Our first line approach was to increase the rate of pay so that standards of living could be more adequate, with an accompanying effort to reduce the hours of work primarily in protection of health and welfare, and with the usual economic by-product of increased output per man per hour of work.

Records of prevailing standards, changes to higher standards, and effects of such changes constituted major facts that union negotiators first needed. The early negotiators gathered their own facts as they went about their work. Reasoning from experience, they put such conviction as they could accumulate back of increases in rates.

In the nineteenth century there were major movements to shorten hours in which unorganized as well as organized joined. First, the ten-hour day instead of the twelve. Then one day's rest in seven. Next, the greatest eight-hour movement of the earlier years of the American Federation of Labor when first one and then another national craft union, through its local unions, made this their specific goal. Then we moved to Saturday half holiday and followed with the forty-hour week. Then some unions secured the six-hour day. The next American Federation of Labor proposal was a thirty-hour week, and this was because of two very different problems: (1) the strain of highly technical interrelated mass production, and (2) the great depression of the thirties.

Our situations and our arguments sustaining them have been worked out in our special laboratories—discussions at the conference tables. Gradually we have added other standards such as paid holidays and pay during sickness. While these standards are concerned with workers' time, they were also important factors in developing a concept of permanence in the relationship between management and employees. The taproot of the concept is provision for seniority, recognizing the life's investment which workers make in operating industries. Provisions for vacation with pay related to years of employment further established this principle.

Now let us turn again to the other line of economic progress for workers, increases in rates of pay. American Federation of Labor unions early learned that only reasonable demands had a chance, for the employer had to meet a pay roll regularly and manage to meet other bills and still have profits in order to continue to do business. They learned that an employer who didn't make profit used his misfortune as an excuse for low wages and low standards and irregular employment. Now and then unions have said to unfortunate employers, "Give us a wage increase and we will pay for it by increased productivity." When the employer has accepted the challenge, the workers have made good. Union scales provided for a beginning or minimum wage and specific rates for craftsmen of various kinds. Some experienced unions preferred a piece-rate system suited to their work and industry.

Many early unions accepted social and economic customs which included differentials based on sex and race. The American Federation of Labor, however, has always opposed discrimination because of race

or sex and has made considerable progress in establishing the principle of equal pay for equal work. That has been a fundamental principle of the American Federation of Labor.

In 1925, our convention declared, "We recommend endorsement of the statement of the Executive Council on wages. We hold that the best interests of wage earners as well as the whole social group are served by increasing production and quality as well as quantity, and by high wage standards which assure sustained purchasing power to the workers and therefore higher national standards for the environment in which they live and the means to enjoy cultural opportunities. We declare that wage reductions produce industrial and social unrest, and that low wages are not conducive to low production costs. We urge wage earners everywhere to oppose all wage reductions and we urge management to eliminate waste in production in order that selling prices may be lower and wages higher. To this end we recommend coöperation in the study of waste in production, which the assay of the Federated American Engineering Societies covering important industries has shown to be fifty percent attributable to management and only twenty-five percent attributable to labor, with twenty-five percent attributable to other sources, principally, managements in industry producing commodities for any single industry under consideration."

Social inequality, industrial instability, and injustice must increase unless the workers' real wages, the purchasing power of their wages, coupled with a continuing reduction in the number of hours making up the working day are progressed in proportion to man's increasing power of production.

With the use of electric power in production came extensive technical changes, standardization of parts, single-purpose machines, and the organization of management to meet the problem of large-scale and mass production. The American Federation of Labor has never opposed the mechanization of industry, the wide extension of the use of electric power and the development of a scientific technique but we have insisted that the worker who makes the service and produces more and better services shall share equally and fairly in the increased productivity. More scientific management was accompanied by improvements in financial accounting, the development of production accounting, and other specializations. Management began the accumulation of data needed for more efficient production at lower costs, for more efficient purchasing of new materials, and for more profitable sale of products or services. This wealth of factual material not only served employers in dealing with production problems, but also served as their exclusive arsenals in collective bargaining purposes. This meant union officials

felt sharply the need for more detailed and specialized information to represent accurately conditions of the workers whom they represented. They put to use materials gathered by the statistical agencies which the American Federation of Labor had been instrumental in getting authorized. Government statistics indicated trends of buying power of wages, stability of employment, and so forth. These data they supplemented by wage scales within their industry, capacity of the employer to pay as judged by current orders and past history, increases in output per worker, and so forth.

#### RELATION OF WAGES TO PRODUCTION

The progress of management in data accumulation had to be matched by the accumulation of union data and competent research workers to compile and analyze them. Union executives had to dislodge the economic theory that a low-wage policy was an industrial asset, and in various ways proved that higher wages result in more efficient workers and lower labor costs per unit of output.

Collective bargaining put meaning and system into wage policies prevailing in industries. We first pointed out that wages represented a large proportion in current buying power. We pointed out that wage cuts were deflationary and that employers' practice of meeting depression by wage cuts in addition to layoffs made depressions unnecessarily deep. We declared that no industry and no society would be enduring which relied on the poverty of its workers.

From time to time, American Federation of Labor conventions formulated various aspects of its high wage theory.

Next we maintained that the high level of production made possible by technical progress can be maintained only when there are buyers for products and services. Wages of workers have to be high enough to enable them and their families to share in the benefits of technical progress through higher standards of living and wider opportunities. Not only should wage earners' incomes be high, but they should be stable in order to assure a stable economy at high levels of employment and production.

We expect good management to assure the profits that make industry stable and progressive, and the American Federation of Labor expects economic management and financial executives to be able to distinguish between prosperity and inflation and to seek the first and avoid the latter.

We recognize that all risk cannot be eliminated from industry. Management provides against its risks by profits high enough to provide for reserves and special risk accounts. Likewise, one of the first functions

that unions served was to create fraternal benefits to take care of their risks to income earning such as sickness, disability, old age, unemployment and death. Gradually we learned, by observing management's reserve systems, to develop a system of deferred wages. We maintained that provisions against these risks were properly charged against the industry.

So we have negotiated with the employers provisions for welfare funds to pay to workers deferred wages out of funds which their work helped to create. We were also instrumental in writing into public policy over-all responsibility for social insurance to provide incomes for self-supporting workers prevented from earning a living by causes outside of their control.

Now as a result of our efforts to secure higher wages, we so impressed the consciences of all citizens with the evil of low wages that the principle of the minimum wage as developed by unions has been written into federal law, thus fixing the floor for collective bargaining and preventing unjust competition and human misery.

Minimum wages by law were first provided for women. It later extended to all workers when the growth of trade unions precluded the possibility of its restricting the development of collective bargaining to determine rates higher than minimum.

#### ASSUMPTION BY MANAGEMENT OF CERTAIN COSTS OF PRODUCTION FORMERLY BORNE BY LABOR

Unions and improved power-driven tools have forced industry to assume many of the costs of production formerly paid by workers themselves. Miners formerly bought all their tools, paid for keeping them in condition, paid for lamps and kerosene, and assumed all the costs of accidents. These items have now been included in the cost of operation. Formerly garment workers supplied sewing machines, needles, thread and some materials. Now these are industry's costs. Formerly streetcar men had to wait around on the employers' property for a chance to work. They must now be paid for responding to the companies' call even if full-time work does not materialize. Travel time, portal-to-portal time, all enter into compensation. It frequently happens that a miner for instance, must go as far as five miles underground or more before he reaches the working place where he begins to mine coal. Portal-to-portal pay now covers that time spent traveling to the place, facing danger as he travels before he can begin his day's work mining coal. Labor's time must be respected!

In these and other ways the union has promoted more intelligent accounting which alone can put moral standards into labor relations.

This, however, is only a beginning. We want developments in procedures of financial and production accounting that will show labor costs separate from costs of materials and management, production by departments and individuals, and labor costs per unit of output.

With proper planning by management and use of improved business machines, it is now possible for management to make available to every worker charts and data showing his production and its cost. Nothing is a greater challenge to a creative person than the record of past efforts. Management must be honest enough to provide such regular records and data along with returns and the sale of products of joint work, together with data showing distribution of profits.

#### ECONOMIC FACTS AS A BASIS FOR BARGAINING

So much of accounting leads to confusion or concealment, whereas what is necessary for better labor relations are clear lines to facts. And when the facts show a square deal, morale goes up and there is incentive for improvement. Any management which makes a practice of giving workers the facts and making accounting revealing, can forego such expensive gadgets as job evaluation, time studies, and so forth. The difficulty connected with these is that they are not made in accordance with our conception of the way either job evaluation or time studies should be made. Time studies are made in academic fashion and the engineers, competent and capable men though they be, do not invite labor to examine the figures and facts. You will recall that a strike took place at the Ford factory a few weeks ago. That strike lasted for four or five weeks. The company lost thousands of dollars; the workers lost additional thousands in wages. Both took a great loss because the workers charged that the management of the company had speeded up on the production line, had initiated it themselves, had not taken the workers into account and had not shown them the reasons why it should be done. They simply speeded it up and as a result the workers protested and much was lost. Put the emphasis on labor relations programs, on making facts available so that workers may know what they are doing, and their relationship to the rest of production, and they will see how they are sharing in the results of joint work in comparison with other groups. These facts will make obvious mutual interests in promoting quality and quantity of production and in sharing equitably in the gains and establishing a sound basis for coöperation, a real partnership of all factors contributing to the enterprise. And such coöperation will lead to better understanding of, and therefore respect for, the functions performed by management without producing workers' attempts to confuse or usurp functions.



**BELIEF IN FREE ENTERPRISE**

Now, in addition to the development of these economic principles and policies which have helped to promote a sound and dynamic economy, the American Federation of Labor has been one of the most loyal supporters of our free enterprise system. We believed in freedom of enterprise because we ourselves wanted to be free. By freedom we do not mean anarchy, everyone against everyone else, or ruthless competition. But we mean in industry, as in the political field, the development of an orderly system in which every group has a voice in defining its rights and for assuming responsibility flowing from rights as the basis for group coöperation.

We believe that the economic groups which carry on production and distribution have more intimate information about the industry which will enable it to direct its policies than could be acquired by any outside agency. This does not mean that industry is above the law, but that it shall govern itself within the law. It does mean that laws affecting industry, management and labor should lay down principles and not regiment actions into carrying out purposes. Through collective bargaining, workers employ the usual business device of contracts. They want to write into contracts provisions which promote their welfare and which are acceptable to both management and to the union as well. When Congress attempts to declare specific provisions of contracts as illegal, then it assumes the right to determine the contract and thus undermines the unions' freedom of contract. Such legislation generates resentment and unrest, not good labor relations.

**PRICE CONTROL METHODS**

During the war we agreed to price controls and acquiesced in the freezing of collective bargaining and wages. But inflation was fed by increases in money to finance the war, cost-plus contracts on munitions, and scarcities of civilian goods. We urged the lifting of price controls after V-J Day in order to facilitate the adjustments necessary to restore balance in the postwar economy. Price controls have prevented prices from serving a main purpose, the reflection of costs. When controls were released, prices rose sharply in the free markets to show the existing inflation, and then more sharply as management raised prices to meet costs of plant expansion and machinery replacement.

This we thought was a shortsighted policy, for our increased costs of living required additional wage increases, and the policy resulted in unnecessary inflation. We are in the process of what we hope is disinflation. Should it prove to be more, the government already has ample

statutory power to take monetary and fiscal action. We do not believe it should seek or have power to control industry. Instead our executive council proposed as a method of dealing with inflation or deflation that the government mobilize industries as follows: Call into conference representatives of industry, management and labor, agriculture, finance, transportation, trade, and submit to them the facts as developed by the government. After discussion resulting in ways and means, ask the representatives to take up the facts and plan with those they represent to see what each can do in his sphere. The representatives should report back plans for action and periodically reassemble to report on their progress and reëxamine the whole general picture. Such enlightened efforts by those in control of industries are far better than relying upon dictators, administrative or otherwise.

And if we really believe in freedom and democracy, we practice it in dealing with all our problems. Life is a unified process in which economics, social, political and religious principles work together to carry out the ideals of citizens and the unifying influence in the religious philosophy which guides individuals.

The American Federation of Labor believes so wholeheartedly that free unions are indispensable to a democratic government and society that during and since the war we have sent relief to workers of Europe and China to help them regain free unions. We have maintained an office for Western Europe and a special one for Germany and Austria. The future of middle Europe will be determined by whether German trade unions stand by Western Europe or turn to the East. That decision will be fateful for the United States and free trade unions everywhere.

#### THE CHALLENGE OF INCREASING PRODUCTIVITY

I am sure that you have observed with a feeling of satisfaction the developments which have taken place in production in our beloved country. During World War I and World War II the workers of our nation, skilled and unskilled, responded to the call of our country and measured up to new heights in production. Ever since, we have increased step by step the individual and collective productivity of the workers throughout the nation. The way in which they have produced has constituted a challenge to all thinking people because we wonder how and in what way we have developed a productivity in America that seems to be almost impossible.

Let me tell you that a graphic illustration of the effectiveness of our economic system is shown in three simple ways: The United States comprises only six percent of the land area of the world, and the population of the United States is but seven percent of the world's population. And

yet with this small percentage of the world population and surface, we produce here in America fifty percent of the world's goods. Isn't that a challenge? Who is it dares to say that the workers of America are ineffective? It requires purpose, determination, skill, training, genius and devotion on the part of the workers who serve, to make such a record as that!

There isn't any reason why the buying power of that great mass of the people, producing as I have just set forth, shouldn't balance fully and completely with our productive ability.

The American Federation of Labor believes that human beings have inalienable rights because of the inherent dignity of each individual and therefore have the right to make decisions affecting their lives. Therefore we are enemies of Communism, which denies religion and hence nullifies rights, and we hope to help the workers of all countries to maintain their rights. Ours is a record that has brought higher standards of living to wage earners, progress with stability to industry, and constructive economic expansion benefiting the whole nation.

In this regard let me mention also that the American Federation of Labor is now spending money and effort to unite Latin America in a well-established trade union movement and only a short time ago we held a Latin-American conference at Lima, Peru. And at Montevideo a meeting of a section of the ILO was also held. The AFL has insisted that the bona fide trade union movement in Latin America shall become a part of the new world federation of trade unions which is now being formed to take the place of the Communist-dominated organization that has been functioning for some time.

#### AMERICAN CONCEPT OF FREEDOM

May I say in conclusion that the workers of the nation cherish the blessings of freedom and liberty. They regard it as a common heritage which must be defended. And it is for that reason they resent any attempts on the part of the lawmaking bodies of the nation to limit their freedom, to curtail their liberties, and to hamper them in the mobilization of all they possess, their economic strength, in order to lift the standard of life and living of the wage earners of the nation to high and still higher levels.

And it is because they value that principle of freedom so highly that they stand united, adamant, and uncompromising in their purpose to secure the repeal of the notorious Taft-Hartley Act. They want to be free, to sell the only valuable thing they possess—their labor—to the employers of the nation under the most favorable circumstances, and free to bargain collectively with their employers for the sale of their

labor upon terms and conditions acceptable to employer and employee. And that is the very issue involved in this notorious, highly objectionable Taft-Hartley Act. Time will not permit me to enter into a discussion of the details of this measure, but it seemed appropriate and fitting for me to make this brief reference to it because I know that you, students of economics, students in this great college of this nation, with your friends here, are asking questions: Why does labor oppose the law? What is the basic reason why labor objects to the inclusion of that law upon the statute books of the nation? It seems certain to me that certain fundamental principles of the Taft-Hartley Act legislation will reach the Supreme Court for final analysis and decision unless it is repealed by Congress very soon.

I am pleased to bring you this brief message. It is an inspiration for me to come here and visit with you for this short period. I repeat what I said in the beginning: that I hope, if I serve no other purpose, I will make a contribution to your thinking upon economics and upon economic problems connected with collective bargaining.

Thank you very much.

# W. Walter Williams

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THERE IS no doubt that the founding fathers would marvel at today's America. But we have paid a price for our material progress. It is now completely true that no man is an island unto himself. The relative dependence of the individual on others—and on the society itself—to supply even his simplest necessities is now a fact of life. Our economy has given us material abundance and increased leisure, but it has taken from us, with our blessing and consent, the power to provide for ourselves. Self-sufficiency for the individual, the community, or the group in our modern society is as bygone as the traveling tinker.

## INTERDEPENDENCE OF EACH ASPECT OF OUR ECONOMY

A relatively few men absent from their workplaces can stop the flow of our economy. Materials and parts absent from their workplaces can do the same. This was demonstrated during World War II when the rubber shortage was at its peak. The supply of the nation's dairy products was seriously threatened by a shortage of small rubber rings for cream separators. Lack of tiny copper screws, immediately after the war, kept thousands of floor lamps unfinished and gathering dust in factory store-rooms. Hundreds of examples could be listed. And they all add up to one thing. America's factories, mills, mines, and farms are one giant assembly line.

There is nothing so dramatic as an electricity shutdown to bring our economic interdependence sharply to our attention. A power strike, or a breakdown in a power system if it should continue over any sustained period, can result in tremendous losses and inconveniences to people who have no connection with the shutdown.

Transportation tieups go along with power tieups in their serious economic consequences. A sleet storm, a tornado, a blizzard can make hundreds of thousands of people helpless and destitute to a degree not possible in our great-grandparents' day. When an oil truck can't get through, or has no oil to carry, homes grow desperately cold. Great-grandfather had his shed handy at the back door, and the fireplace worked even if it did smoke.

None of us, however, would trade places with great-grandfather. He was self-reliant and self-sustaining. But his supply of food, clothing and shelter was meager and insecure. We have traded great-grandfather's self-reliance and self-sustenance for interdependence and abundance.

Life's necessities can flow to us in constant supply only as the complex and interwoven society we have built runs smoothly without loose monkey wrenches jamming the gears.

Along with the development of our technology have come new social institutions. The rise of the corporation was the outstanding fact of the eighties and nineties. The rise of the union was just as inevitable, with associations of workers following the rise of group enterprise as night follows day. The growth of the trade union from the status of an outlaw organization into a normal part of the working machinery of our society is now another fact of modern life.

Unions have grown like magic plants under the wand of a Merlin. In the last fifteen years, union membership in America has increased from three million to fifteen million and there is strong evidence that this growth will continue.

#### SIGNIFICANCE OF COLLECTIVE BARGAINING

The Committee for Economic Development has said repeatedly that collective bargaining is a healthy manifestation of a democratic industrial society. Under modern conditions of corporate enterprise it must be recognized that the individual is in a poor position to bargain for the best possible return for his services. Association for bargaining purposes is the inevitable development. Collective bargaining is the democratic technique through which, it is hoped, fruitful industrial relations can be realized in the mass production society. But collective bargaining, like other democratic institutions, carries responsibilities as well as privileges. As CED stated in 1947: "Collective bargaining can work only with the acceptance by management and labor of their appropriate responsibilities. It can succeed only where both labor and management want it to succeed. It can flourish only in an atmosphere free of animosity and reprisal. There must be a mutual eagerness to develop collective bargaining procedures and attitudes which will result in harmony and progress."

It is a sign of the times that this great university should be conducting a series of meetings on the subject, "The Economics of Collective Bargaining."

First, it is a recognition that collective bargaining is an accepted instrument of economic policy and an accepted part of our society.

Second, and more important, it is a recognition of the fact that if we are to develop the collective bargaining method into a socially useful instrument, it must be based upon sound economics.

Unless labor and management accept intelligent economic criteria as a guide to bargaining actions there is trouble ahead for us all. What

those criteria should be, I know, would bring argument from all directions. But we need such argument, such discussion of basic premises if collective bargaining is to flourish.

#### FIVE BASIC PRINCIPLES OF COLLECTIVE BARGAINING

In my opinion five principles form the economic foundation of constructive collective bargaining. Let me submit them to you.

1. Labor and management must believe in capitalism, and help to make it work.
2. Labor and management must believe in ever-increasing productivity, and must work to achieve it.
3. Labor and management must believe in the importance of the managerial function.
4. Labor and management must make decisions on the basis of economic fact, not economic power.
5. Labor and management must accept their primary responsibility to the community.

#### BELIEF BY BOTH LABOR AND MANAGEMENT IN CAPITALISM

Now let me discuss these five principles one by one. When I say that both sides must believe in capitalism, I mean that they must believe sincerely and wholeheartedly in the competitive free market economy and must devote intelligent effort to make it work. Fortunately, getting theoretical agreement on this basic premise of our economy is not much of a problem.

But I have the feeling that all of us could help narrow the gap between belief and practice.

Management and labor leaders make economic decisions daily which affect the growth of our economy. Are they ready to make decisions in the spirit of an expanding capitalism? Are they ready to reject decisions which limit production or restrict competition? Does the labor leader who believes in a profit-and-loss economy accept the role of profits? Does he agree that profits are good—necessary to investment and expansion? Does the manager who believes in a mass production economy accept the relationship of volume to price? Does he agree that the constant lowering of prices can build volume and that this is fundamental to our kind of capitalism?

Does the manager agree that the interests of business as a whole are best served by passing on a substantial part of the savings flowing from higher productivity in the form of lower prices and higher wages?

And finally if both management and labor believe in democratic capitalism do they resist the temptation to preserve temporarily their

economic positions by the use of restrictive practices aimed at each other or, in collusion, at the consumer?

The American public has come to expect a steady improvement in living standards. The quest for material progress is one of our most distinctive characteristics. We are determined that our children shall be better off than we have been.

Under this philosophy, the standard of living—the material well-being of most people—has increased in the United States more rapidly than at any other time or place in the history of mankind.

Here are the facts. Since 1850, population has increased six times while national income (in constant prices) has increased more than twenty-five times. The real income per person rose more than fourfold. The record indicates that the American capitalism has been and is the most productive in the world.

This enormous increase of productiveness has been translated into higher living standards in a variety of ways: shorter hours of work, longer years in school and earlier retirement, higher wage and salary rates, lower prices, new products and improved qualities, and more public services and benefits.

The rising standard of living of the past century, in the sum of all these forms, was made possible basically by the great expansion in the *capacity to produce*, primarily through the accumulation of capital invested in plant and equipment.

The critical importance of investment in machinery and capital goods is illustrated by the fact that in 1850 a worker typically had only one-half of a horsepower to help him. By 1940, however, each worker was assisted by 27 horsepower. Thus the amount of horsepower *per worker* was multiplied 54 times between 1850 and 1940. In 1850 for each worker in manufacturing it is estimated there were \$557 (in 1850 prices) worth of capital equipment. In 1940, the figure approximated \$6,000. Since prices had almost doubled, that represents about \$3,000 in terms of 1850 prices, or a sixfold increase in capital equipment. These statistics provide some indication of the increase in the quantity of capital goods combined with labor services to increase productiveness of the economy.

America enjoys the highest standard of living in the world because its capitalism, in spite of some defects, has delivered. And it can deliver far more than it has. The standard of living of the American family can be doubled in the next twenty-five or thirty years. This is a practical objective for the common effort of management and labor. It is a necessity if this generation is to meet its responsibilities.

The record of the last century has been impressive. The problem for the future is to keep our capitalism dynamic, to continue to raise living



standards and yet to reduce, as much as possible, the human costs as reflected in insecurity and instability.

But the point I make is this: We can accomplish as much, or more, in the future as we have in the past only if labor and management adhere to the basic economics of capitalism.

Practically, what does this mean? Let me give one example. Labor and management have a stake in securing a sufficient stream of funds, particularly venture funds, for new plants and equipment. We have seen the critical role which those expenditures played in raising living standards in the past. To raise real wages fourfold, capital per worker in manufacturing had to rise six times. Over the past century about twenty percent of our gross national product has been used annually for capital formation.

The present tax system discriminates in important ways against risk-bearing investment: by limitations on the spreading of losses through time, by penalizing those with irregular incomes, by excepting state and local government bonds from federal taxation, by double taxation of corporate dividends, and by very steep rates of progression in the individual income tax. If we are to maintain the rate of investment which made our past growth possible it would seem obvious that labor has as big a stake as management in working to correct these tax inequities.

In times when inflationary pressures are strong, self-serving pressures that contribute to inflation provide another example of an area demanding greater attention to the basic economics of capitalism, and less lip service. Real danger to our economy arises from the threat of continuing wage and price inflation under conditions of high employment. The widespread growth of labor unions establishes the basis for powerful upward pressure on money wage rates. When there is a strong demand for goods and a tight labor market, wage demands are hard to resist and easy to grant. Under these circumstances, there is real danger that unions may force up wages at rates which exceed productivity gains and necessitate increases in prices. Similarly, in these circumstances, some businessmen find it too easy to inflate profit margins. And then we find ourselves on the inflation highway. Inflation brings danger of subsequent depression, with widespread waste of man power and productive facilities and depressed real incomes for all groups in the population.

Neither the alternative of widespread unemployment nor of direct government controls over economic activity is acceptable in a democratic capitalism as a check against such inflation. Yet can collective bargaining in this country, under conditions of high employment, restrain wage settlements within limits which are not inflationary? The answer may well be decisive for the future of our economy.

I have emphasized that our capitalism requires constant changes in management techniques, processes and skills. Such changes, while contributing to general progress, inevitably mean hardship for some firms and workers. These are temporary layoffs. Some jobs are permanently lost. Old skills become obsolete. The new jobs may arise in different localities or require very different skills. There is danger that collective bargaining may become so concerned with security that we will fail to provide for the readjustments required for rapid increase in living standards.

There is need to keep in mind the double objectives of security and progress. I don't think it's possible to have complete security without sacrificing progress and thus drying up the well-spring which makes security possible. On the other hand, progress provides the foundation for real security—not only its level but its distribution as well. More progress means more security, for more people. But it still should be possible to mitigate the personal costs of movement and readjustment and yet secure a high rate of increase in living standards. Can collective bargaining adjust to this problem?

BELIEF BY LABOR AND MANAGEMENT IN EVER-INCREASING  
PRODUCTIVITY AND EFFORTS TO ACHIEVE IT

Productivity is the basis of the modern industrial society. Increased productivity, more output per man-management-machine hour, is the heart of our industrial body. Any permanent stability in the workshop will have to be in harmony with this fundamental fact.

There are two general ways in which groups in our society may seek to improve their economic lot. One method is to take away income from others. A company may raise its prices relative to other prices. A union may push up the wages of particular workers more rapidly than others. Political action may be used to support particular prices, profits or wages at abnormal levels. That is one way—at the expense of each other. It is the unsound way, the uneconomic way.

The other way of improving living standards of a group is for that group to participate in increasing the total output, helping to produce a bigger pie. That is what I mean by believing in the practicing a philosophy of dynamic capitalism.

The tone of the dealings between union and management organizations will condition the morale of the workers and, in turn, the quality and amount of their output. An understanding and sympathetic attitude on the part of management tends to be reflected in the interest and efficiency of the work force. Similarly, the union organization affects productivity by the attitude it engenders among its members. If the

union officers show no interest in production and disparage, criticize and oppose all programs to increase productivity, the workers are likely to act accordingly. On the other hand, a sympathetic attitude on the part of union leaders will be reflected in the performance of the rank and file.

Distribution of productivity gains, which stimulate business owners and managers to increase productive efficiency, has kept the economy dynamic and progressive. It has served, in turn, to distribute rapidly throughout the population the gains resulting from economic progress.

In highly progressive industries wages have, in general, increased somewhat more rapidly than average, and profits have tended to be relatively high, but most of the productivity gains have been transmitted to consumers in the form of lower prices and improved quality of product. In industries experiencing little or no increase in productivity, wages have increased less than average, profits have tended in general to be low, while prices have increased.

Continued productivity will depend greatly upon labor's attitude. Labor cannot continue to have the power it does and not hurt itself and the economy as a whole unless it exercises its power in the direction of increased productivity.

I am not unmindful of the difficulties in getting collective bargaining dedicated to productivity. It is not easy to convince men that increased productivity is not so much a matter of working harder as it is a matter of working better.

Our troubles at home are the heavier because of the weight of our troubles abroad. But the diligent pursuit of mounting production will help to solve them. It is nothing new to say that high productivity makes more jobs, maintains jobs, and makes for better jobs. But it never needed more emphatic retelling than now. Let me speak in terms of a hubcap.

One day in 1938, the officials of a motor company called in a skilled craftsman and said to him: "Jake, do you think you could make a hubcap shell by hand?"

"Sure," he replied, "but there's no sense to it."

"We just want to see how long it takes," they told him, and so Jake went to work.

Jake was no slouch, and by the stop watch, his time was good. But while he was hammering out one hubcap shell, an automatic press turned out 2,160 of them.

In material cost, plus his pay, Jake's handmade shell cost \$2.50.

The machine-made shells cost a little over 12 cents apiece.

With Jake's sample as a starter, the company went on to calculate that to produce an entire car by hand would cost \$17,850. Perhaps not 50 cars a year would be sold at that figure.

There wouldn't be any automobile industry as we know it, with its hundreds of thousands of jobs. There wouldn't be any jobs in filling stations and in rubber plants and drive-in restaurants which those automobile-making jobs have generated.

I could have used a safety razor blade or a light bulb instead of a hubcap shell, perhaps. The point of the story is the same. Productivity has given us all we have and can remultiply it endlessly. But will it? *It can if labor and management believe in ever-increasing productivity and work to achieve it.*

BELIEF BY LABOR AND MANAGEMENT IN THE IMPORTANCE  
OF THE MANAGERIAL FUNCTION

It is now obvious to all that the union has an important role in our industrial life. It has a voice in decisions and the power to back up what it says. To an increasing extent it has moved in on the traditional preserve of management to make decisions.

This has been developing for the last twenty years. During this period, collective bargaining in our factories has been increasingly concerned with the issue of how much the union should have to say in running the show. The average American on the sidelines of the labor-management arena has watched labor's struggle with an indulgent and sympathetic eye. He has often been inclined to wear labor's colors and to cheer its gains. He has often largely identified himself with its cause.

Decent pay, decent working conditions and decent treatment are desirable ends which everybody wants and understands. But attention to these ends has caused many to overlook the importance of efficient management.

Management's function is different from the function of ownership. In effect, the management function is as impersonal as traffic rules. The right-of-way on the public highway is not a personal privilege. It is there for the sake of order.

Nor are the functions of management something confined to a capitalist society such as ours. They prevail in all societies, socialist and communist as well as capitalist. Whether the workers own the plant, whether the government owns it or stockholders own it, there must be management.

Our natural inclination toward the human, understandable and rightful objectives of labor has caused us to underestimate the importance of management's function in our modern industrial society. We have taken its accomplishments largely for granted. But it has been management which has brought labor, capital and raw materials together. It is management which must fix the standards of efficiency for

the one and calculate the most productive use of the others. Management must adjust the outward flow of the finished product. The American high standard of living is owed in no small part to the high caliber of American management.

Through the years the concept of the managerial function is constantly being modified and changed as the production environment changes. In the past it was generally considered management's prerogative to formulate all factory law. This included all rules and regulations, hours of work, working conditions, and wage payments. Take the problem of layoff. Twenty years ago management was in sole charge of whom to lay off if business receded. Now there are seniority lists in all organized and most unorganized plants. Management has accepted the fact that layoffs should be governed by agreed rules. It is a rare and backward management today that argues that it alone should decide who shall remain at work.

But there is a basic right, if the economy is to function efficiently, that labor must concede to management and that is management's authority to direct the business. There must be no infringement by labor on this basic managerial function—direction and administration of the enterprise.

Can collective bargaining meet this challenge? Can it resist short-circuiting and undermining the managerial function? For if it does not, neither collective bargaining nor our economy will survive. On the other hand, can collective bargaining reinforce the managerial function? *It can if labor and management believe in the importance of the managerial function.*

#### NECESSITY FOR LABOR AND MANAGEMENT TO MAKE DECISIONS ON THE BASIS OF ECONOMIC FACT AND NOT ECONOMIC POWER

Every collective bargaining session eventually resolves itself down largely to the issue of labor's share of the sales dollar. And that is as it should be. Labor costs are vital to labor and management. To labor it is the heart of collective bargaining. To management it is often the hell of collective bargaining.

For the great weakness in collective bargaining today is the unwillingness, often of both sides, to rest one's case upon economic facts that pertain to the enterprise involved. There is a tendency to use either economic power or propaganda power to force decisions which are not economically sound. Collective bargaining cannot survive that kind of practice.

Take the propaganda front. Both labor and management are prone to use yardsticks which suit their purpose rather than economic fact.

In periods of inflation labor will use the cost of living argument. In periods of deflation labor drops the cost of living argument. In periods of deflation management will use the argument of losses but will ignore the argument of profits in a period of inflation. This refusal to find the facts and hold to them always reminds me of the classic couplet: "Give me what I haven't got and take me where I'm not."

What I am driving at is the need for both sides to honestly grasp the economics of the particular industry and enterprise and to base their collective bargaining decisions on those facts.

The wage structure of the country is now set, in the main, by collective bargaining. That makes it imperative that economic fact guide labor and management in fixing wages. The nation has an interest in the kind of wage structure which is developed because rates influence the movement of capital and workers and thus the growth of the economy.

Labor and management must also recognize the relationship that exists between real wages and production. The only important way in which real wages can be raised is through increases in productivity. Attempts to raise wages generally faster than productivity increases results in increased prices, decreased employment, or both. On the other hand, as I have indicated, most of the productivity gains of the past century have gone either to labor and higher wages or to the consumer and lower prices.

There is an urgent need for labor and management to resist the tempting use of economic power and use reasoning power based upon economic fact instead. But can collective bargaining meet this challenge? *It can if labor and management believe that decisions should be made on the basis of economic fact and not economic power.*

#### ACCEPTANCE BY LABOR AND MANAGEMENT OF THEIR PRIMARY RESPONSIBILITY TO THE COMMUNITY

The last of the five principles I listed a few moments ago is: *Labor and management must accept their primary responsibility to the community.*

Collective bargaining, like democracy, is a technique. It can be good or bad. If the technique is used by men who act in the public interest then collective bargaining is constructive. If not, it can be destructive.

Labor and management owe it to America to develop patterns of living together. They cannot use their power, power derived from the right to associate and incorporate, to tear the economy apart. After all, the right of association, whether into corporations or unions, is a right granted to individuals by the community. This right carries with it a social responsibility. And it is government's duty to enforce that social

responsibility. To the extent that these associations accept their public obligations, government can stay out of their affairs. Where the group does not practice public responsibility, it leaves government with no alternative but to step in.

Our society, to remain democratic, must continue to grant the right of freedom of association, but it must, at the same time, insist that autonomous economic groups assume social responsibility. And it must do this without destroying the group itself. It is one of the primary problems of modern, democratic government to fold these great interest-groupings into the economic and political structure of a free society without destroying either group or individual rights. This is the great, long-term problem raised by the growth of the corporation and the union. We refuse to accept either the alternative of rule by the power blocs or a dangerous extension of governmental power.

To serve themselves best, management and unions must recognize their mutual interdependence and their responsibility to the community. This is the great imperative of our time. It isn't a question of lip service to social idealism. It is a question of down-to-brass-tacks appraisal of our economic necessities.

We know that isolationism can be dangerous in an interdependent world. We are learning that isolationist conduct by any one group in our modern society is dangerous to our interdependent, interwoven economy. There is no better place to begin to end economic isolationism than in the collective bargaining process.

The Committee for Economic Development has repeatedly stated that it believes in free collective bargaining. But collective bargaining is a relatively new technique. It is still on trial with the American people. And it will be on trial until labor and management demonstrate that they *accept their responsibility to the community*.

Let me summarize.

Collective bargaining is now accepted as public policy. It is part of the warp and woof of our social fabric. But it needs constructive development. That means putting it on a sound economic foundation. In my opinion that foundation has five pillars:

1. An energetic belief in capitalism.
2. Constant effort to increase productivity.
3. Recognition of the importance of the managerial function.
4. Decisions based on economic fact.
5. Acceptance of responsibility to the community.

These principles, I submit, can form the basis of sound economics of collective bargaining.

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