

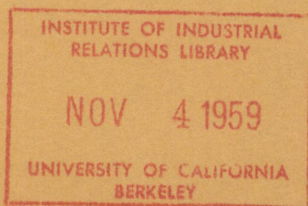
# WAGES, PRICES, PROFITS, PRODUCTIVITY:

*Report of the*

UNIVERSITY OF CALIFORNIA  
WESTERN ASSEMBLY

YOSEMITE NATIONAL PARK, CALIFORNIA,

OCTOBER 1-4, 1959



INSTITUTE OF  
INDUSTRIAL RELATIONS  
(Berkeley and Los Angeles)  
UNIVERSITY OF  
CALIFORNIA  
Berkeley and Los Angeles 1959

**WAGES  
PRICES  
PROFITS  
PRODUCTIVITY**

*Report of the*

UNIVERSITY OF CALIFORNIA  
WESTERN ASSEMBLY

YOSEMITE NATIONAL PARK, CALIFORNIA  
OCTOBER 1-4, 1959

INSTITUTE OF INDUSTRIAL RELATIONS  
UNIVERSITY OF CALIFORNIA  
Berkeley and Los Angeles

*Copies of this publication may be obtained from the*  
**INSTITUTE OF INDUSTRIAL RELATIONS**

***Northern Division:***

201 California Hall  
University of California  
Berkeley 4, California

***Southern Division:***

Business Administration—Economics Building  
University of California  
Los Angeles 24, California

**COPYRIGHT, 1959, BY**

**THE REGENTS OF THE UNIVERSITY OF CALIFORNIA**

## Foreword

ON OCTOBER 1, 1959, approximately 60 persons from the West Coast gathered at Ahwahnee Hotel, Yosemite Park, California, for the University of California–Western Assembly on WAGES, PRICES, PROFITS AND PRODUCTIVITY. They engaged in separate round-table discussions for three days, and on the fourth day agreed on a final report in plenary session. The report was released to the press at the end of the plenary session and is now being made available in printed form. We are glad to acknowledge the generous support of the American Assembly of Columbia University, which made possible this regional conference.

The participants, whose names are listed at the end of the report, included representatives of management, labor, government agencies, the press, and education. Speakers at the evening sessions included John T. Dunlop, Professor of Economics, Harvard University; Paul G. Hoffman, Managing Director, Special Fund of the United Nations; and W. Allen Wallis, Executive Vice Chairman of the Cabinet Committee on Price Stability for Economic Growth.

The American Assembly and the University of California take no official stand on the issues or recommendations presented in the report.

GEORGE H. HILDEBRAND, *Director*  
Southern Division

ARTHUR M. ROSS, *Director*  
Northern Division

# **Wages, Prices, Profits and Productivity**

*Final Report of  
University of California—Western Assembly*

OCTOBER 1-4, 1959

YOSEMITE NATIONAL PARK

## *I. Trends and Measurements*

Statistics cannot eliminate differences in interest and resultant controversies in the industrial and political spheres. But intelligent pursuit of self-interest and effective discussion of public issues can be facilitated if measurements of wages, prices, profits and productivity are broadened in scope, refined and disseminated more widely.

The choice of measures depends upon the purpose at hand. Some statistics may be helpful for collective bargaining, others for analyzing general economic changes, and still others for appraising the economic welfare of various groups.

Presently available wage statistics emphasize hourly earnings for production workers in manufacturing industries. We need more data on occupational rates, fringe benefits and unit labor costs, and better coverage of salaried workers and non-manufacturing activities.

The value and importance of the Consumers' Price Index are now widely accepted, although acknowledged technical deficiencies still remain. Continuous refinement is necessary, particularly in view of its important role in the adjustment of wages and salaries. Changes in product quality and carrying charges for installment purchases are not now adequately reflected.

The Assembly recognizes numerous difficulties concerning the measurement of profits. Some of these involve inadequacy of data, such as inventory data and information concerning unincorporated business. Others involve disputes over appropriate concepts and procedures. For example, in a given case, should profits be measured before or after

taxes? Should they be related to sales or investment? How should depreciation be calculated? For some purposes a gross measure of returns to investment, including rent and interest as well as retained and distributed profits, is of significance.

The best productivity measures now available are rather general, relating to the economy as a whole or broad sections thereof. Greater refinement of statistics for particular industries is desirable. Indirect as well as direct labor inputs should be reflected. Units of labor input (hours worked or paid for) should be used consistently in productivity and earning statistics. More work needs to be done in measuring the productivity of resources other than labor, and developing an index of the efficiency of combined resources. Care should be used in interpreting productivity data; for example, it should not be assumed that any one factor—workers, management or capital—is “responsible” for all changes in labor productivity.

The Assembly is in agreement that private and public efforts to broaden and refine these measures should receive greater financial support.

Economic trends since the end of World War II were reviewed. There have been three periods of substantial price inflation: the Consumers' Price Index advanced 20 points in 1945-48, 10 points in 1950-51, and 9 points in 1956-59. Since 1952 the average annual increase has been about 1 per cent. Cycles of declining food prices have moderated the average increase; prices of other commodities and of services have risen somewhat more rapidly. The continued rise in prices during the 1957-58 recession raises problems of interpretation and possibly disturbing implications for the future course of prices. It should be noted, however, that during the past decade price increases in the United States have been more moderate than in almost every other country.

Money wages have risen more rapidly than consumer prices, yielding a significant increase in real wages during the postwar period. Labor costs per unit of output have risen substantially, except in agriculture where they have declined. From 1952 through 1957 higher labor costs represented the major component of price increases in non-agricultural industries. The bulk of the increase in unit labor cost, in manufacturing at least, consists of salaries rather than wages. An increase in the proportion of salaried workers has been an important factor in this increase in unit labor costs.

Profit margins per unit of sales increased from the end of World War II until 1951. In general they tended to decline after 1951, although we do not yet have information on changes in unit labor costs and profit margins during the present period of economic recovery which began in 1958.

## *II. Analysis of the Postwar Inflation*

At no time since 1945 has the price level actually declined, although intervals of steadiness occurred in 1949, in 1953-55 and in 1958-59. In the latter two periods the prices of manufactures rose slowly and persistently and those of services somewhat more rapidly. These movements were partially offset by the decline of farm prices and of foods.

As measured by gross average hourly earnings in manufacturing, mining and construction, wages have increased regularly in all of the postwar years. However, the percentage advances were substantially larger in years of expansion than in those of decline.

There was general agreement that the postwar rise of wages and prices proved nothing in itself about causes. Some participants also expressed marked doubts about the seriousness of the inflation problem for the years after 1952.

It was noted that the postwar years were somewhat comparable to the 'twenties, although there are also important differences. Both periods were generally prosperous, while productivity rose at about the same rate. However, money and real wages, together with consumer prices, increased considerably faster during the period after World War II. Moreover, wages and prices continued to advance well after the recession set in, in late 1957. Labor productivity failed to rise at its normal rate during 1956-57, while farm prices again turned upward. Both of these influences contributed to rising prices.

The Assembly devoted much attention to the causes of those price-wage movements. "Demand-pull" inflation occurs when money demand exceeds the supply of goods and services, forcing their prices upwards. In "cost-push" or "sellers'" inflation, sellers take the initiative in raising supply prices. These include labor costs, interest and rents, profit margins and the prices of raw materials.

Many conferees agreed that: (1) demand and cost changes are interlocked because both affect money incomes; (2) cost-push inflation cannot persist for long without a compliant monetary policy; (3) it is difficult to

assign the causal responsibility for a cost-push; and (4) other influences are not easily identifiable either with demand-pull or cost-push.

The participants concluded without much difficulty that the inflationary upswings of 1945-48 and 1950-51 resulted from demand-pull. Considerably less agreement could be reached about the period after 1951, except that the demand explanation did not easily fit. Many participants pointed to cost factors described as administered prices and wages, and to rising rents and interest rates. Some felt that sellers' control of market prices was important, but others pointed to falling profit margins relative to sales as evidence against this view. Some also noted the capital-goods boom during 1955-56 as contributing both to higher costs and higher demand, while others stressed influences such as farm price supports, the defense budget, and increased dependence upon internal financing.

There was broad agreement that postwar prices, wages, and other costs were much more rigid on the downside than ever before in our history. Thus upswings during business expansions are no longer balanced by downswings during contractions.

### *III. National Economic Goals*

There was essential unanimity that, if a choice must be made, economic growth and full employment should take precedence over strict price stability. There was some disagreement as to what is meant by "full employment."

A majority expressed significant doubt that full employment and economic growth are compatible with strict price stability. A minority, however, were of the opinion that these goals can be achieved simultaneously.

There was the feeling that free collective bargaining and industrial peace should be important goals of American society.

Few felt that there was a conflict between collective bargaining and industrial peace on the one hand and economic growth, full employment, and price stability on the other.

### *IV. Policy Recommendations*

1. National economic policy should stress the realization of our growth potential, with price stability remaining an important goal. Price infla-



tion equivalent to that experienced in the last seven years would be acceptable if necessary to achieve a satisfactory level of employment and stable economic growth. If a slow but steady inflation proves necessary, management, labor and government should cooperate in a search for methods designed to facilitate adjustments for those who depend primarily upon fixed sources of income.

2. Monetary and fiscal measures are important instruments of economic policy. They may prove to be inadequate, however, if cost-push inflation becomes a persistent problem in the future. In this event, sole reliance upon restraint of demand through general monetary and fiscal measures would jeopardize full employment.

3. Pockets of unemployment in distressed localities or industries cannot be dealt with effectively by over-all economic policies. They require specific private and public measures oriented to such areas or industries.

4. Direct wage and price controls by government must be rejected as a means of dealing with inflationary tendencies in peacetime.

5. Higher productivity would facilitate the maintenance of price stability under traditional economic policies. The task of raising productivity must be shared by management, labor, and government.

6. We recognize that there must be a steady flow of funds into business investment to insure that capacity expands at a satisfactory rate and that technological changes are incorporated in improved methods of production and in new and improved products. We also recognize that part of this flow of capital should come from retained net earnings, and that some industries traditionally rely on this source of funds more than others. However, in a lively and sharply divided argument the concept that profits must be high enough to finance corporate expansion primarily from internal funds was questioned. Instead, the majority felt that in our kind of economic system the consumer should not be forced to supply most of the funds for corporate expansion.

7. Consistent with national security, the United States should continue to maintain a liberal foreign trade policy and to work for the reduction of barriers to international trade. We recognize that further tariff reductions will create difficult problems of adjustment for some firms, industries and communities. Management, labor, and government should cooperate to facilitate these adjustments particularly through measures that will improve the mobility of both labor and capital.

8. Fair and effective enforcement of the anti-trust laws can contribute

to the maintenance of a freely competitive economy. We do not believe that anti-trust policy can cope with short-period increases in the price level, however. We see no merit in the use of anti-trust laws to break up national unions.

9. Procedures should be devised to bring together labor and management representatives to discuss with the appropriate government representatives questions related to prices, wages, productivity, profits and labor mobility and the bearing of these matters on national goals. For such discussions to be effective, they should be accompanied by similar discussions at the regional and local level.

10. The United States should not seek to adopt the system of economy-wide bargaining used in some other countries. Bargaining at the level of the firm, local area, or industry is most compatible with American economic and political institutions.

11. We are somewhat divided as to whether the recent trend toward multi-unit bargaining affects the rate of wage changes. The practice does, however, reflect a logical growth of collective bargaining relationships, and no governmental attempts should be made to interfere with it.

12. Changes in labor productivity are of interest in wage negotiations but cannot be the sole or decisive factor. One limitation is that productivity increases are likely to be attributable in part to the increasing use or quality of other resources for which compensation must be allowed, such as engineers and other salaried personnel, capital goods and raw materials.

13. Wage and price decisions of unions and employers should not be made contingent on prior public investigations and reports. Such a procedure would violate the principles of free collective bargaining, and inject political considerations into the relationship between labor and management.

14. Except for periods of rapidly rising demand, long-term contracts embodying deferred or automatic wage adjustments would appear to exert a slight upward pressure on the rate of wage increases. These contracts have, however, made a significant contribution to stable labor relations. In our view, the question of whether or not such contracts are to be adopted should be left to the parties.

15. Labor and management have, on balance, achieved a remarkably good record in resolving their economic differences. Attempts further to reduce the scope of free collective bargaining should be resisted.

## List of Participants

AARON, Benjamin  
Associate Director  
Institute of Industrial  
Relations, University of  
California, Los Angeles

ANGELO, Joseph  
Sub-District Director  
United Steel Workers  
610-16th Street  
Oakland, California

ARBUCKLE, Ernest C.  
Dean, Stanford Business School  
Stanford, California

BAHRS, George O.  
Roth and Bahrs  
351 California Street  
San Francisco 4, California

BERNSTEIN, Harry  
Labor Editor  
Los Angeles Examiner  
1111 South Broadway  
Los Angeles 54, California

BERRYMAN, John J.  
Executive Assistant to the  
President  
American President Lines  
311 California Street  
San Francisco, California

BROWN, Albert  
Secretary-Treasurer  
Milk Drivers' and Dairy  
Employees' Union, Local 302  
610 Sixteenth Street  
Oakland 12, California

BRUNDAGE, Albert  
Lazarus, Brundage & Neyhart  
3540 Wilshire Boulevard  
Los Angeles 5, California

BURGESS, Louis  
Editor, East Bay Labor Journal  
1622 East 12th Street  
Oakland 6, California

CARTER, E. Finley  
Director  
Stanford Research Institute  
Menlo Park, California

CHRISTIAN, Joseph J.  
Secretary-Treasurer  
Los Angeles Building & Construction  
Trades Council  
1626 Beverly Boulevard  
Los Angeles 26, California

CLINTON, J. Hart  
Executive Vice President  
Distributors Association  
58 Sutter Street  
San Francisco 4, California

COHELAN, Jeffery  
House of Representatives  
Washington, D.C.

COOPER, John L.  
President  
Los Angeles Joint Executive Board of  
Hotel and Restaurant Employees and  
Bartenders Union  
2119 West 8th Street  
Los Angeles 57, California

CRANSTON, Alan  
Controller of the State of California  
State Capitol  
Sacramento, California

DESPOL, John  
General Vice President  
California Labor Federation AFL-CIO  
995 Market Street  
San Francisco 3, California

DOCKSON, Robert R.  
Dean, School of Commerce  
University of Southern California  
University Park  
Los Angeles 7, California

ETCHEVERRY, Bernard E.  
General Planning Division  
Kaiser Steel Corporation  
1924 Broadway  
Oakland 12, California

EUBANKS, Sam B.  
Executive Secretary  
San Francisco-Oakland Newspaper Guild  
821 Market Street  
San Francisco 3, California

FISHER, John F.  
Executive Officer  
California State Personnel Board  
801 Capitol Avenue  
Sacramento 14, California

FOISIE, Frank P.  
Executive Vice President  
Federated Employers of San Francisco  
2 Pine Street  
San Francisco 11, California

GERSHENSON, M. I.  
Chief, Division of Labor Statistics  
and Research  
California Department of Industrial  
Relations  
965 Mission Street  
San Francisco 3, California

GORDON, Mrs. Margaret  
Associate Director  
Institute of Industrial Relations  
University of California  
Berkeley 4, California

GRETHER, E. T.  
Dean, Graduate School of Business  
Administration  
University of California  
Berkeley 4, California

HAIRE, Mason  
Professor of Psychology  
University of California  
Berkeley 4, California

HACKLER, Charles K.  
Stevenson, Hackler & Ansell  
1616 West 9th Street  
Los Angeles 15, California

HENNING, John F.  
Director  
California Department of Industrial  
Relations  
965 Mission Street  
San Francisco 3, California

HILLS, Roderick M.  
Musick, Peeler & Garrett  
621 South Hope Street  
Los Angeles 17, California

HITCH, Thomas K.  
Research Director  
Hawaii Employers Council  
Honolulu, Hawaii

HODGSON, James D.  
Director of Industrial Relations  
Lockheed Aircraft Corporation,  
California Division  
2555 North Hollywood Way  
Burbank, California

HOWARD, Jack  
San Francisco Chronicle  
5th and Mission Streets  
San Francisco, California

KLEINSORGE, Paul  
Professor of Economics  
University of Oregon  
Eugene, Oregon

KNECHT, Louis  
Director, District 9  
Communication Workers of America  
20 Haight Street  
San Francisco 2, California

KOSSORIS, Max D.  
Regional Director  
Bureau of Labor Statistics  
U. S. Department of Labor  
630 Sansome Street  
San Francisco 11, California

MacNALLY, Robert F.  
Assistant General Manager  
Los Angeles Metropolitan Transit  
Authority  
1060 South Broadway  
Los Angeles 15, California

MEYERS, Frederic  
Professor, Graduate School of  
Business Administration  
University of California  
Los Angeles 24, California

MOLLES, Daniel  
International Representative  
International Union of Operating  
Engineers  
25 Taylor Street  
San Francisco, California

PIERSOL, Frank W.  
Manager, Department on Organization  
Standard Oil Company of California  
225 Bush Street  
San Francisco 20, California

ROCHE, George S.  
Chief, Research & Statistics  
Department of Employment  
State of California  
Sacramento, California

ROTHBAUM, Melvin  
Professor of Economics  
University of California  
Los Angeles 24, California

SEQUEIRA, W. L.  
Administrative Director  
Atomics International, A Division of  
North American Aviation, Inc.  
Canoga Park, California

SIEROTY, Julian  
President  
Eastern Columbia, Inc.  
1000 North Rexford Drive  
Beverly Hills, California

SMITH, William French  
Gibson, Dunn & Crutcher  
634 South Spring Street  
Los Angeles, California

SMITH, WILLIAM H.  
Secretary-Manager  
Federated Employers of San Francisco  
2 Pine Street  
San Francisco 11, California

SOLOTOY, Percy  
President  
Brown-Saltman Furniture Co.  
2570 Tweedy Boulevard  
South Gate, California

SPILLER, Henry  
Director, Statistical Department  
Teamsters Joint Council No. 42  
1616 West 9th Street  
Los Angeles 15, California

SPIVEY, C. T.  
Director of Industrial Relations  
Columbia-Geneva Steel Division  
United States Steel Corporation  
120 Montgomery Street  
San Francisco 6, California

STRAUSS, Don  
Director of Employee Relations  
Beckman Instruments, Inc.  
2500 Fullerton Road  
Fullerton, California

SWAN, Eliot J.  
First Vice President  
Federal Reserve Bank of San Francisco  
San Francisco 20, California

TELLWRIGHT, F. D.  
Executive Vice President  
Pacific Telephone & Telegraph Co.  
140 New Montgomery Street  
San Francisco 5, California

ULENE, John  
International Ladies Garment Workers  
Union  
1130 South Maple Avenue  
Los Angeles 15, California

VIAL, Don  
Administrative Assistant  
California Labor Federation  
995 Market Street  
San Francisco, California

WALSH, Harold  
Business & Financial Editor  
Los Angeles Times  
202 West 1st Street  
Los Angeles 53, California

WILKENS, D. C., Jr.  
Manager, Industrial Relations  
Convair  
P. O. Box 1950  
San Diego 12, California

WILLIAMS, W. Walter  
Chairman  
Continental, Inc.  
810 Second Street  
Seattle, Washington

ZISKIND, David  
Attorney  
756 South Broadway  
Los Angeles 14, California

## PANEL LEADERS

CHEIT, Earl  
Institute of Industrial Relations  
University of California  
Berkeley 4, California

GORDON, R. A.  
Department of Economics  
University of California  
Berkeley 4, California

NORTON, Frank  
Graduate School of Business  
Administration  
University of California  
Los Angeles 24, California

## RAPORTEURS

BERNSTEIN, Irving  
Institute of Industrial Relations  
University of California  
Los Angeles 24, California

HUBER, J. Richard  
Department of Economics  
University of Washington  
Seattle, Washington

PHELPS, Orme  
Professor of Economics  
Claremont Men's College  
Claremont, California