

Although the Bureau cited several factors which will contribute to increasing productivity, it admitted that "some of the factors which contributed to the smaller productivity gain in 1965 can be expected to continue to operate for the next few years, particularly should output continue to increase at a high rate."

Add to this outlook the likelihood of increasing wage costs and a picture of a classic cost-push inflation emerges. In 1965 wage adjustments negotiated and scheduled to go into effect in the first contract year amounted to 3.9 percent, disregarding fringe benefits, which by themselves added another 0.75 percent to wage costs. This compares to increases of 3.2 percent in 1964 and 3.0 percent in 1963. The increase without fringes comes to 3.3 percent even when averaged out over the life of the agreements, far above the 3 percent of 1964 and the 2.3 percent of 1963. Adding fringes puts the 1965 figure far above the wage guideposts.

The situation is even more disturbing with regard to unorganized workers. Here the Bureau admitted that there were "more frequent or widespread wage increases than in previous years." The proportion of unorganized workers in manufacturing plants who got wage increases in 1965 rose to 70 to 75 percent from the 50 to 60 percent of recent years. Next year the increases among unorganized workers are likely to be even larger. For one thing, the Bureau notes that "the consumer price index is a major factor in bargaining and in wage determination among unorganized workers." Other factors noted by the Bureau that might cause larger increases in wages in nonunion firms in 1966 include growing shortages of workers and the reduction in take-home pay resulting from higher social security taxes.

A recent Labor Department study of 306 major collective bargaining agreements shows that all but 12 provide for possible wage adjustments in 1966. The number of workers scheduled to receive deferred wage increases is the greatest since 1957. About 35 percent will get increases between 10 and 11 cents an hour, compared to 1965 when the largest concentration (32 percent) received 7 to 8 cents an hour. Over 4 million workers will get deferred increases averaging 3.2 percent. In addition, 2 million of these will get another 2 to 3 percent in accordance with escalator clauses based on the consumer price index.

PAYROLL TAX BITE

Employers are already feeling the effects of the increase in social security taxes and the increase in the taxable wage base. The Council has estimated that this tax increase raises hourly labor costs two-thirds of a percentage point. However, the Council unrealistically does not believe that these legislated payroll costs should be considered as a wage increase or fringe benefit for purposes of the guideposts. Even if negotiated wage and fringe increases were within the guideposts this year, the increase in social security taxes would impose a clearly inflationary cost on business.

The administration's recommendations for an increase in the minimum wage and a broadening of its coverage may also be inflationary and have the additional effect of pricing unskilled labor out of the market. Whatever the merits of the minimum wage, there is a widespread feeling—apparently shared by some in the administration—that any increase that is granted should be noninflationary.

When asked whether the proposals to increase the minimum wage and its coverage would increase costs and prices, Chairman Ackley replied, "I should suppose that the effect of any increase in the minimum wage would depend on how large an increase were involved * * * an increase in the minimum wage that was consistent with the general average gain in productivity in the economy would probably have minimal effects on labor costs." Since all increases suggested so far greatly exceed the guidelines, it is obvious that current proposals would be inflationary, particularly if they were to take effect this year. The upward pressures, of course, would not only be felt at the lowest rung of the wage scale, but all through the wage structure as competing groups strive to maintain their differential wage advantages.

To the extent that the administration's proposals to change the unemployment compensation system increase employer costs, they will also be inflationary. This should be one of the primary considerations taken into account by the Congress in debating both the unemployment compensation and minimum wage proposals.²

² Senator Javits thinks the minimum wage should be reasonably increased to meet new cost-of-living demands and believes we should adjust in other directions to meet inflation.