The above calculations on the ability of manufacturing corporations to absorb cost-of-living wage increases were originally made to check the validity of an assertion made by the Council in the statement of September 12, 1966, previously mentioned. At that time, as noted, the Council contended that the increase in the consumer price level was due largely to gains made by farmers and by low-wage service workers which, it argued, were desirable from a policy standpoint, as well as by certain nonmanufacturing workers exerting their "market power." (It mentioned, but played down, the role of price increases by corporations which had no basis in the levels of costs or profits.) The Council argued that the gains of farmers and low-wage workers were desirable from a policy standpoint—which they were[2]—and then, in effect, concluded that higher-wage workers should pay for those gains. (The Counciml apparently assumed, contrary to some of its own earlier statements, that farmers and low-wage workers can make gains only at the expense of other workers.) It then went on to say:

"The import of all this for the strongly organized workers in manufacturing is clear: *If workers in manufacturing attempt to catch up with the past rise in consumer prices in order to achieve real wage gains equal to the trend in overall productivity, a sharp rise in manufacturing prices can be avoided only by an appreciable squeeze of manufacturing profits, . . .*". [emphasis in the original]

This statement is contradicted by the figures cited above. They show that if manufacturing workers—wage and salary alike—had caught up with the cost of living, profits would have been reduced from extraordinarily high levels resulting from unjustifiable price increases and refusals to reduce excessive prices, but, far from being "squeezed", they would still have represented, in the second quarter of 1966, rates of return significantly higher than in the peak quarter of the last business cycle. Even if that were not the case, there would still be a question as to whether the living standards of manufacturing workers' families or profits should bear the adverse effects of the increase in the price level.

Effect on workers' standards

As the inequities described above evolved, workers inevitably became more restless with them. The Council notes that wage settlements tended to increase as the year progressed, particularly in the second half of the year. However, all wages changes effective under major collective bargaining agreements in 1966, including those due under contracts negotiated in earlier years, averaged 3.3 percent. This was exactly equal to the increase in consumer prices from December 1965 to December 1966. Obviously, even after allowance is made for increases in fringe benefits that may have been somewhat higher in percentage terms, the average worker's share in the economy's productivity gains last year was negligible, and for many workers the year brought a reduction in living standards.

In four of the five industry divisions for which the Bureau of Labor Statistics produces data on real spendable weekly earnings, the buying power of the average worker's take-home pay, expressed in dollars of 1957–59 buying power, was less than it had been a year earlier. Between December 1965 and December 1966, for a worker with three dependents, real spendable average weekly earnings in mining fell from $102.32 to $101.20; in manufacturing they fell from $89.75 to $88.13; in wholesale and retail trade, from $64.63 to $64.17; and in finance, insurance, and real estate, from $74.59 to $73.23. Only in contract construction did real spendable weekly earnings rise a few cents, from $111.77 in December 1965 to $112.35 in December 1966.

It is true that take-home pay levels were affected by the increase in the Social Security tax, but even gross real weekly earnings dropped in two of the industry groups, manufacturing and finance, insurance and real estate, and in a third group, wholesale and retail trade, rose by only 24 cents per week.

Cost-of-living escalators

The year 1966 thus demonstrated to millions of workers the need for cost-of-living wage escalator provisions in their contracts in order to protect their families' living standards against the inequities illustrated above. The evidence is clear—workers' wage and fringe benefit gains did not initiate the rise in prices.

[2] The gains to farmers, however, apparently went disproportionately to those operating large farms rather than to impoverished small farmers.