

Workers, rather, were the innocent victims of it. Escalator clauses would have prevented erosion of the buying power of their wages.

In the face of these facts, the Council nevertheless decided this year, for the first time, to make a direct attack on the cost-of-living escalator principle. It said:

Although the Council recognizes that some allowance will frequently be made for higher living costs in 1967 settlements, it continues to believe that arrangements which automatically tie wage rates to changes in consumer price indexes will contribute to inflation. One union may be able to protect its members in this way against any deterioration in its real wage or any real impact from increased indirect taxes. But it does so only by imposing more of the burden on others. And if all unions—and other groups in society—were to succeed in tying compensation to consumer prices, the arrangement would become a vast engine of inflation, which, once it began to roll, would continue to gain speed.

We reject this conclusion for it flies in the face of the economic facts. As has been demonstrated above, manufacturing industries, to give one example, could very well have afforded to compensate their workers out of profits for increases in the cost of living, and would still have had profits at very high levels. All the above-quoted paragraph says is that if the employers had so compensated their workers, but had then used their market power to regain that money from consumers by driving up prices, and so protect their already inflated profits, prices would have gone up further. In short, if groups other than workers achieve gains for themselves by causing inflation, the workers have no right to try to restore equity.

The UAW's position

The UAW has had provision for quarterly adjustment of wages in accordance with changes in the Consumer Price Index in its contracts with General Motors since 1948, and with other major corporations since 1950. These clauses have provided for UAW members and their families a measure of equity for which those not so protected have all too often had to fight on the picket line. The members of the UAW are of no mind to surrender their escalator clauses and see their living standards eroded.

I tried to make that clear—to the Council, to the auto corporations, and to the nation—on the day the Council released its Report. I said:

"The families of UAW members in the automobile, aerospace and agricultural implement industries have had the protection of cost-of-living escalator clauses for many years—in some cases since 1948. Such clauses are a basic part of the wage structures of the industries involved and an essential precondition for industrial relations stability in those industries. The UAW in the past has successfully resisted all efforts to tamper with cost of living protection for its members and it does not intend to permit any tampering in 1967 by the corporations or by anyone else. We will not depart from the escalator principle in this year's negotiations nor will we tolerate any weakening of its implementation.

"The UAW has consistently followed the policy of negotiating gains for its members out of the rapid technological progress and the profitability of the major corporations for which its members work without causing any necessity for price increases. We have adhered in practice to the principle that UAW members and their families should make progress with the community and not at the expense of the community.

"The major auto corporations have not shared the fruits of their great gains in productivity with consumers in lower prices. The UAW has demonstrated time and time again that these corporations could, at the same time, reduce prices to consumers, provide increased wages and improved benefits to their workers, and still earn more than satisfactory profits for their stockholders.

"The Council of Economic Advisers should remember that escalator clauses remain inoperative—no worker gets a penny out of them—unless prices rise first.

"The Council, therefore, would better serve the interests of the national economy and the American people by focusing its attention upon the price-profit policies of the major corporations in America rather than by seeking to place the major burden of avoiding inflation upon workers and their families."

Escalator is not inflationary

The Council's position on escalator clauses is not only indefensible from the standpoint of equity; it is poor economics. The economic defense of cost-of-