

The CEA proposal that companies with above average gains in output per manhour should cut prices in a period of strongly surging demand and capacity operations was completely unrealistic. Thus, it is now forced to conclude that "the greatest failure of observance of the price guidepost lies in the failure to reduce prices on a considerable number of the product lines of a large number of industries." (p. 125) The only surprising thing about this situation is the surprise of the CEA.

Prices have a rationing function—to allocate limited supplies among the more urgent users as indicated by their willingness to pay the price—which is particularly important in periods of shortage. If price doesn't allocate supplies then this must be done on a first-come, first-served basis, or by favoritism, or by government priorities or rationing. Where shortages prevail a reduction in price is exactly the wrong prescription and will tend to result in a less efficient use of resources.

2. *The assumption that productivity (output per manhour) is the major factor in wage determination.*—The CEA states "The only valid and noninflationary standard for wage advances is the productivity principle." (p. 128) For some key industries, the rate of change in output per manhour nationally is one factor considered in collective bargaining. But it is neither the only factor nor the most important one. Other factors include the general state of the economy, the growth rates of specific companies and industries, changes in the consumer price index, rival union leadership, comparative wages, and profitability.¹

Apart from periods of rising living costs, the most important factor in the overwhelming number of wage negotiations is the wage comparison criterion. Although the CEA pays lip service to this criterion (p. 130), it emphasizes that "Very often the wage comparisons in collective bargaining are only part of a game of follow-the-leader which, at best, is irrelevant to resource allocation and, at worst, speeds up a wage-price spiral." (p. 131) It also appears to regret that in one settlement the "customary relationship" between different groups of workers in a company was not destroyed. (p. 131)

Certain key industries such as automobiles and steel have helped to establish patterns for general increases in wages and fringes in the postwar years. The CEA has been concerned primarily with such industries although initially it specifically stated that its guideposts do not constitute "a mechanical formula for determining whether a particular price or wage decision is inflationary." (*Economic Report of the President*, 1962, p. 188) However, settlements in other companies and industries do not always match the "key wage bargains".

For smaller companies and industries as well as in local bargaining, the guideposts have been of minor importance since the factors peculiar to the competitive situation, locality, or industry tend to have greater weight in the minds of the negotiators. It is not surprising, therefore that some of the largest departures from the guideposts have taken place in local bargaining. As a result, wage relationships among different sectors of the local economy are bound to be distorted.

In the real world, wage relationships are of critical importance both to the firm that seeks to hire labor and to the union leadership which must produce results for its members. It is true, as the CEA notes, that proper comparisons often are difficult to make. But each party is more skillful at countering the claims of the other than the CEA seems willing to recognize so that neither party can arbitrarily select only comparisons favorable to itself and make them stick.

In discussing prospective settlements the CEA states that "many wage settlements in 1967 will exceed the trend increase of productivity" (p. 128) In effect it treats changes to compensate for rising living costs as "an additional margin" (p. 128) beyond the productivity total. The reality of collective bargaining will be just the reverse.

The first factor considered by negotiators during periods of rising living costs is what increase is required to restore real wages to the level prevailing when the previous contract was negotiated. Then consideration is given to how much more the adjustment should be to compensate either for anticipated further rises in living costs or to increase real earnings.

¹ For a general discussion see Jules Backman, *Wage Determination*, D. Van Nostrand Co., Inc., Princeton, N.J., 1959, *passim*.