Real value output per man-hour

[1958 dollars]

	1947	1965	Percent increase
Nonfarm	$2.59	$4.26	64.5
Farm	.77	2.31	200.0
Total private	2.27	4.12	81.5

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Indexes of Output Per Manhour for the Private Economy 1947–65," (mimeo), Washington, D.C., October 1966, table 1A.

From 1947 to 1965 because of the tripling of the real value output per manhour in the farm sector, the total rise in the entire private sector was 81.5% as compared with only 64.5% in the non-farm sector.

From 1947 to 1966, output per manhour in the non-agricultural sector of the economy increased 2.8% per year as compared with about 3.3% for the entire private economy. The workers who shifted from farming to the non-agricultural sector received the higher wages already prevailing in that area and hence the part of the gain in private output per manhour resulting from the shift in the mix of total employment already has been distributed. Actually, the maximum amount available for distribution is the increase in output per manhour recorded in the non-agricultural sector, not in the entire private sector.

Upgrading of labor force

In recent years, there also has been a shift in the composition of the labor force. For example, production workers accounted for 83.7% of total employment in manufacturing in 1947, 75.1% in 1960, and 74.4% in 1966.

The significant expansion in research and development has involved a large increase in the relative importance of personnel devoted to those activities; automation is having a similar effect. To the extent that non-production workers receive higher average salaries than production workers, part of the gains in output per manhour is required to finance the shift in composition of the labor force, and hence is not available for general improvements in wages and non-wage benefits.

Similarly, an increasing proportion of production workers is found in the skilled category. This changing composition of the labor force also results in a built-in increase in labor costs and thus reduces the amount of productivity gain available for distribution through general increases in wages or non-wage benefits, in higher profits, or in lower prices.

The CEA recognized in 1962 that ". . . it must be borne in mind that average hourly labor costs often change through the process of up-or-down grading, shifts between wage and salaried employment and other forces. Such changes may either add to or subtract from the increment which is available for wage increases under the overall productivity guide." (*Economic Report of the President*, 1962, p. 190). It is probable that on balance these changes have subtracted from the increment available for distribution.

In the light of the foregoing factors, it seems clear that neither the 3.3% annual rate of gain in output per manhour for the entire private economy nor the 2.8% gain for the non-farm economy from 1947 to 1966 is available for distribution. This is one important reason why the rise in real earnings has fallen short of such "guideposts" in the postwar period:

Between 1947 and 1965, the latest year for which data for wage supplements are available:

Real average hourly earnings in manufacturing increased at the annual rate of 2.3%.

Real average hourly earnings plus wage supplements increased at the annual rate of 2.7%.

The CEA has been using output per manhour data that are too high and thus building up expectations for annual rates of increase in real labor income which cannot generally be attained continuously over time.

Effect of announcing numerical goal

The high number announced by the Council quickly became the minimum acceptable target for unions and the maximum that some managements were