Deficiencies in Council's treatment of wages and labor costs

The Council's analysis of labor compenstion and labor costs is faulty to the Nth degree. It compares changes in productivity or output with money changes rather than real changes in average hourly compensation, that is, without factoring in the rising cost of living. This is not only social injustice; it is also economically unsound.

One of the major justfications for rough compatibility between increases in productivity and in wage rates is that this will enable the purchasing power of individual workers to rise pro tanto with the increase in productivity, and thus help to maintain a balance between production capabilities and effective demand. For this purpose to be achieved, it is manifest that real wage-rate gains rather than money wage-rate gains are relevant.

The other reason for compatibility between productivity gains and wage-rate gains is from the viewpoint of business costs. It is argued that, if money wage rates rise more rapidly than productivity, profit margins and profits will be unduly squeezed. But this argument has little merit, either in logic or in observation, and almost none in recent observation. When money wage rates rise more rapidly than real wage rates in consequence of a cost-of-living adjustment for a rising general price level, experience shows clearly that the rising general price level, for many reasons, operates also to increase money profits, and in fact to increase these sufficiently to expand per-unit profit returns and to lead to excessive profits in the event of adequate volume (and to militate against adequate profits only if sales volume is adversely affected by inadequate expansion of money wages, among other factors).

Thus, to oppose cost-of-living adjustments after prices have risen not only locks the door on workers after somebody else has done the stealing; it also rewards those who have done the stealing. The Council should stop and consider the extent to which its stubborn and wrongful opposition to cost-of-living adjustments has contributed to the gross imbalances within the economy during recent years and even now.

Further, in the Council's analysis of this whole problem, including the problem of per-unit labor costs, relatively too much emphasis is placed upon developments within the last year, and not enough relative emphasis is placed upon longer-term trends (due to prevalent policies) which are far more significant. Viewing the great lag in wage-rate changes behind productivity gains from 1957 or from 1961 forward, it would be entirely healthy and desirable, as part of a necessary catching-up process, for real wage-rate gains to rise somewhat more rapidly than productivity gains for a time.

The discussion of prices and the distribution of real income by the Council takes the rather automatic position that no attempts by management or labor to increase its relevant share can be for long successful. It is highly doubtful whether this is true. As my demonstrations have shown, viewing the period from 1961 forward as a whole, management's share has been greatly increased at the expense of labor and other consumers; this has been bad for the whole economy; and it has been due in substantial measure to the price wage guideposts, the fiscal and monetary policies, and other national economic policies.

In sober fact, the problem of devising national economic policies which would bring income distribution more into accord with require-