The necessity of dealing with a powerful union and the probability of a long-term contract currently in effect present formidable obstacles to the auto manufacturer, but virtually none to the grape grower and only moderate ones to the usual department store owner.

The level of demand for labor probably affects the department store owner least, since he can call on young people just entering the labor market, housewives, and, because of the timing of his peaks with respect to other businesses, moonlighting employees from other industries. The grape grower, on the other hand, cannot rely on such labor since his work calls for endurance and a degree of skill, and time pressures imposed by the nature of his product sharply limit the practicability of using moonlighters. Similar problems confront the auto manufacturer.

The employer's compassion seems most likely to interfere with wage reduction in the case of the grape grower, who generally obtains his workers from cultural groups with large families and consequently high levels of need compared with their relatively low wages. Since average earnings in auto manufacturing lie at approximately double those in retail trade, compassion introduces relatively little deterrent in the former and perhaps moderate deterrent in the latter.

All barriers considered, then, the auto manufacturer probably has little hope of decreasing wage rates, the grape grower perhaps can do so if his pity does not interfere, and the department store owner may have a reasonable chance of passing on the tax via wage cuts or withholding of raises.

Similarly, differences in the effectiveness of the barriers may be observed in connection with increasing the price of the product, substituting skilled workers,[8] reducing nonlabor costs, and substituting labor-saving capital equipment, not only for the three industries chosen for illustration in table 2, but for almost any group the reader might select from differing major industry categories. Employers in some industries will find they can implement several of the tax-adjusting actions with relative ease; others perhaps can undertake only one such action, and that with difficulty; yet others will be effectively blocked from any tax-adjusting action at all and consequently must bear the full weight of the tax themselves.

AVERAGE RATE OF A TAX BY INDUSTRY

One rather drastic, and necessarily longrun, adjustment to the tax comes about if employers change product or line of business in an effort to minimize the tax.[9] As long as all industries receive approximately equivalent treatment, such tax-induced movement would offer no gain. But, if the typical rate of tax varies from one industry to the next, a high enough rate can, over the long run, force entrepreneurs out of the heavily taxed areas and into the favored ones.

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[8] The advantage from using skilled workers relates to the base ceiling. For instance, three semiskilled employees at an annual salary of $6,000 each create (at 1967 rates) an employer tax liability of $836. If two highly skilled workers at $9,000 annually can produce equivalent output, total salary will be equal in both cases, but the OASDHI tax liability will come to only $580, for a tax saving of $256.

[9] This adjustment may not be made so much by existing employers as by new employers who enter a low-tax industry rather than a high-tax industry when the latter would be preferable on nontax grounds alone.