

Secretary SHULTZ. No. If I am following your line of reasoning, perhaps I am not—the argument would be that the union would come to the bargaining table and say, “We now have a 10-percent surcharge on income, and in order to maintain real wages we have to increase the demands that we are making by the equivalent of that, and therefore, Mr. Employer, come across with higher wage than otherwise would be the case.”

If that happened I suppose someone would argue that somehow the effect of the surcharge has been passed through to the employer. And I suppose there would be a presumption that he would pass it along in terms of prices, and thereby you would kind of wash the whole thing out. My response is in terms of saying that I am sure that demands or arguments of that kind were presented, but my guess is that they recede into a lot of other things, and it would be difficult to pick out any special influence there. I would doubt that it has a great deal of influence.

Senator MILLER. Will the Senator yield?

Representative WIDNALL. Yes.

Senator MILLER. On this point, are there escalator clauses in some of these contracts which not only provide for automatic increases based upon the CPI increases, but also upon an income tax increase?

Secretary SHULTZ. I don't know enough to state flatly that there aren't. But it isn't a widespread thing. My guess is that it is practically nonexistent.

Representative WIDNALL. Mr. Shultz, recently labor has shown a declining interest in the short-term contracts, 10 months or less, and an increasing interest in 3-year labor contracts. Whereas 30 percent of labor contracts involving the Federal mediation 4 years ago were long-term, now the average is about 60 percent. What are the implications of this shift as to wage and price stability of the general economy?

Secretary SHULTZ. Well, of course, it depends on what the long-term contracts contain. In general what seems to have happened is that you have, let's say, a 3-year contract, and you have so-called front-end loading, so that the first year cost is higher than the second or third year cost. That tends to have an impact, a special impact, in the years when there is a lot of bargaining involving lots of people. It has a counterpart in the subsequent years when the deferred increases are going into effect.

What that counterpart influence turns out to be depends upon what is going on in those subsequent years. In 1969, for example, the estimate is that a little over 6 million workers are covered by collective bargaining agreements that have a deferred wage increase built into them.

The deferred wage increase that will become due averages on the order of 4.1 percent, as I recall. I made comments about forecasting earlier but I believe one can say with some confidence that the average negotiated increase in 1969 will be higher than 4 percent. So I suppose one can say that in 1969 the deferred wage increases will have a bit of a dampening effect because of the large numbers involved. But it could work the other way around.

I think this happened in the steel industry, as a matter of fact, in the last days before competition from imports and other materials cut them down to size, and there were tremendous deferred wage in-