Frontiers of Industrial Peace

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IN the field of industrial relations, 1950 was a memorable year. For on May 29th last, the most recent Agreement between General Motors Corporation and the vigorously led UAW-CIO recognised explicitly that there is a long-term tendency towards increased physical volume of production per person, and the principal new provisions of their Agreement were based on the knowledge of this tendency. Within a fortnight, the signing of an Agreement in Oshawa, between General Motors of Canada Limited and the same Union, extended this recognition to Canada.

There is no need here for an extensive analysis of these forthright, pioneering documents. Each covers a period of five years, from the date when it became effective. Each provides for a Pension Plan and an Insurance Programme. Each provides for a Cost of Living allowance, designed to maintain evenly the living standards of employees: offsetting, that is, in terms of the government's official cost of living index figure, any shrinkage in the purchasing power of money, which may become apparent during the life of the contract—and continuing to do this, as often as may prove to be necessary.

These Agreements, in addition to the cost of living provision also guarantee that individual wage rates will be raised progressively: recognising an Annual Improvement Factor, of so many cents per hour on successive anniversaries—sums which may perhaps correspond with an average increase, in wage earners' hourly rates, of 2½% per annum.

Each Agreement explicitly recognises two principles, as being necessary to the successful fulfillment of these undertakings. Though the Canadian and United States texts are not identical in respect of them, verbal differences are trifling. In Clauses (5) and (92) the Canadian Agreement states:

"The Union recognises the right of the Company to hire, promote, transfer, demote and lay off employees and to suspend, discharge or otherwise discipline employees for just cause subject to the right of any employee to lodge a grievance in the manner and to the extent as herein provided.

"The Union further recognises the right of the Company to operate and manage its business in all respects, to maintain order and efficiency in its plant, and to determine the location of its plants, the products to be manufactured, the scheduling of its production and its methods, processes and means of maunfacturing.

"The Union further acknowledges that the Company has the right to make and alter, from time to time, rules and regulations to be observed by employees, which rules and regulations shall not be inconsistent with the provision of this Agreement. . . .

"The Annual Improvement Factor provided for hereinafter recognises that a continuing improvement in the standard of living of employees depends upon technological progress, better tools, methods, processes and equipment, and a co-operative attitude on the part of all employees in such progress.

"It further recognises the principle that to produce more with the same amount of human effort is a sound economic and social objective."

Elsewhere from time to time, the betterment of the citizen's living standards has been bedevilled by restrictive practices hampering industrial production. These have been none the less real and effective, because their enforcement, as often as not, has been unofficial.

Here, by contrast, is a frank recognition by what may be the largest and most powerful of North American trade unions that a community's income is actually nothing more or less than the goods which that community produces, and of course, uses and consumes, within a given period of time.

In pursuance of this theme: when it is desired in any community to bring about an enlargement of average income per head, the sole means of achieving this objective is to plan for, and achieve a corresponding increase in the volume of production per head. And when it is desired that *real* incomes shall increase *continuously* (that the good things of life shall be made available in ever growing quantities, to the general run of citizens, which in peace time is an eminently practical objective) then the need becomes imperative for a continuous increase in the volume produced per head, of the good things of life.

As is well known, the novel feature of these Agreements have been copied in a number of instances, elsewhere. The dictum is thus widely recognised by now, that where freedom of business enterprise exists, there is a potential annual increase in the physical volume of production per person, of which it is natural and wise for us to take account. The social benefits which may flow from this type of agreement are obviously great.

Of course, no corporation can promise always to provide the members of its working force with employment, under all circumstances. The capacity to do this varies with changing circumstances, which an employer cannot possibly control. Till recently the fear, lest with scant warning they might lose their jobs, was continuously present in the minds of many, perhaps of most wage earners.

But after ten years of Full, or more that Full Employment, and in the face of contemporary demand for weapons, tools, equipment and consumer goods, which seems insatiable, the sense of being in hazardous employment is clearly much less widespread among wage earners, much less vivid than it was.

In combination with one another, moreover, the General Motors' Pension Plan and Insurance Programme, Cost of Living Allowance and Annual Improvement Factor in these Agreements of 1950 do guarantee that, so long as there is work to be done by the breadwinner, no shrinkage in our dollar's value will diminish by more than a trifling amount, or for more than a very short time, the family's purchasing power: which, even if no promotion, or up-grading of the breadwinner should occur, can be depended on, over a period of years, slowly but surely to grow.

Thus, in the case of General Motors Corporation, several hundreds of thousands of employees—and including their dependents, perhaps more than one million persons altogether—found last year that they could plan at long range (in many cases, no doubt, for the first time in their lives) large expenditures for household and educational purposes and for recreation. The stabilising influence of this change within families—and even in entire towns, if in a large measure they depend on a General Motors' payroll, for their wellbeing—needs only to be mentioned here. One may reasonably think that just as, in adverse conditions, the sense of insecurity may sometimes spread through communities like an epidemic, so may the sense of security be made, in conditions which encourage it, gradually to pervade whole communities in which it thus becomes established.

Let us concede that, alike from the standpoint of union and corporation, this was a great stroke of statesmanship.

But we must not assume that the benefits agreed upon, in any five-year contract such as this, are all of them net gain from the standpoint of the former. For a trade union is a militant body supporting its members' interests, in dealings large and small with representatives of the corporation; and from time to time, it may fee mpelled for the sake of its members to take a drastic stand, against the desires of the corporation. In order to do this it needs, in time of crisis, loyal support from its members.

The trade union is, at the same time, exposed continuously to the peril of treason from within; or at least, as often as the communists can infiltrate its membership successfully. Their objective is, of course, impartially to destroy both union and corporation. For in the paradise of Marx there is no room either for organised labor or for organised capital. Both must be wrecked.

If in consequence of five-year agreements, such as those which are described here—negotiated in a sensible atmosphere administered in good faith and without friction between union and corporation—members of the trade union should lose interest in the conduct of their union's affairs; and should allow the management of those affairs, by default, to pass into communist hands, then we may be sure that their union would soon cease to serve its members' needs; and at no great distance in time, would languish and begin to decay.

While they were negotiating with one another during the Spring of 1950, presumably both parties to these Agreements thought in contemporary terms, about the business outlook. So far as either party then could know, the rapid inflation, which ensued upon World War II, by then had about run its course; and even if the policies currently being pursued both in Washington and Ottawa, might seem somewhat inflationary, there was then in prospect no violent recurrence of inflation.

Nevertheless in undertaking thus to protect, and gradually to raise the living standards of wage earners in its employ during five successive years, the General Motors Corporation did assume not only very large but as well, indeterminate liabilities. On the part of management certainly the signing of this Agreement was a great act of faith. The launching in Korea, less than a month afterwards, of an attempted *coup d'etat* by the communists and the threat of world-wide warfare which this aggression from the first involved of course increased enormously the sums at risk, in the fulfillment of their Canadian and U. S. Agreements.

ONE feature in these Agreements—the dimensions of the respective Annual Improvement Factors—may properly be made the subject of comment at this point. We may be sure that the statisticians of the General Motors Corporation—confronted with the question, "At what rate does the physical volume of production per man hour, on the North American continent, now tend to grow?" —collected an assiduously studied all of the material from all sources, which might throw light on this rate.

The suggestion has already been made that, alike in the Canadian and U. S. Agreements, these agreed Annual Improvement Factors may perhaps, on an average, correspond with wage increases, at the rate of 2½% per annum. For what this observation may be worth, everything that I know confirms the soundness of this estimate.

This may look, at first sight, like a divergence from our own estimate, already made in the first article in this series—PUBLIC AFFAIRS, Vol. XIII, No. 1, Autumn, 1950 —of almost exactly 2% per annum in the case of each country. But the 2% figure is derived not from a comparison between man hours, but from a comparison between man years, well separated in time. Thus the percentage, which is yielded by this calculation of mine, implicitly takes full account of the shortening of work hours, which has been and still is a feature of our time. (But the General Motors' Annual Improvement Factor is expressed, in terms of increasing hourly rates, which is a very different conception from annual earnings.)

Perhaps we never shall succeed in measuring accurately the manner in which work hours have been shortened, during the past few decades. But we may possibly get a perspective on the problem, by means of a single, crude, direct comparison.

Since 1933 (that is, during the Franklin Roosevelt, Mackenzie King and Truman Eras) the principle has become accepted almost universally, that not more than forty hours at straight time should normally be required, of workers in industry

Just about one hundred years ago—that is, when various of the British Royal Commissions were sitting, in whose records Marx persistently quarried while writing Vol. I of *Capital*, for fresh evidence of capitalist atrocities in The Class War—the principle was being accepted (more or less in parallel to this attitude on the part of our generation) that not more than *sixty hours* at straight time should be normally required, of workers in industry.

That is to say, during the past nine or ten decades, the conscience of the capitalist West has accepted a reduction in the normal work week, paid on straight time, of twenty hours.

In terms of today's usual work week, this rate of curtailment corresponds with a reduction of working time, annually, by one half of one per cent of the time usually worked: i.e., twelve minutes per week=0.5% of forty hours.

It will be noted that one half of one per cent is the difference between the General Motors' Annual Improvement Factor (as it is understood here) and my computed, average annual increase in the Gross National Produce, per head of adult population.

At first sight one is tempted to suppose that he will meet within his own plant the crucial test, of his capacity to fulfil an undertaking of this kind: in other words, that his first concern must be the rate at which productivity per man hour, within the plant, is capable of being increased, during the lifetime of his agreement.

But on a deliberate and sober reflection, evidently that is not the case. What matters most is not the rate at which the productivity per man hour, of employees destined to receive the successive hourly rate increases, can be made larger: but rather, the rate at which, on an average and in general terms, through the community large or small which is the market for their products, average productivity per man hour can be raised. We need to remind ourselves constantly, that the volume of any community's production is exactly the same thing, as the real income of the community—that is, its income measured not in dollars, but in goods and services.

If, on an average in that larger community which is the market, productivity per man hour cannot be raised, or can be raised but slowly, the market will prove unable to purchase, in adequate amounts and at satisfactory prices, the products of the plant, now to be covered by this Annual Improvement Factor. Under these supposed circumstances, the more efficient that plant, and the faster the growth in productivity per man hour, on an average, of its employees, the more obvious will the market's failure be, to consume what the plant can produce.

In the result, and ultimately, revenue from sales will fail to make possible payment of the covenanted wage increases; and the more efficient the plant's operation becomes, the worse will be the restrictive influence of a too narrow, because stagnant, market.

But if on the contrary, productivity per man hour in the larger community which is the market can be raised quickly, the corresponding relatively rapid growth in the market's consuming capacity, may be depended on continuously to take care of the plant's expanding output. Indeed, if growth in output should fail to keep pace with the rate at which the demand of the market for the plant's output grows, it may be that unit prices of the products of the plant will in due course be raised somewhat, relatively to prices in general; and in that event, payment of the promised wage increases may prove to be no problem at all.

Thus it was of set purpose, not inadvertently, that I defined the question which confronted statisticians of the General Motors Corporation, before this latest Agreement of theirs as negotiated, as being—"At what rate does the physical volume of production per man hour, *on the North American continent*, now tend to grow?"

DOUBTLESS the first question asked by most of use, when in broad outline the terms of the 1950 General Motors' Agreements were announced in the press, was, "Are these inflationary?" The swift movement of events since June 25th last, of course, gives added point to this.

Little is likely to be gained by seeking a dogmatic answer to this enquiry now. Much will doubtless depend on the forthrightness, courage and skill with which, during the next few years in Washington and Ottawa, the strong inflationary forces independent of such Union Agreement's (forces already much in evidence) will be countered. We must not assume yet that, by means of any controls now being discussed, these other inflationary forces will be brought under control successfully. But the degree to which they can be throttled down will obviously condition, to some extent, our experience with the General Motors' Agreements and others of similar tenor.

Nevertheless it is perhaps worth while briefly to consider this question, in relation specifically to the General Motors' Agreements, before passing on.

And obviously the simplest treatment of the problem is to suppose, simply for the sake of argument and provisionally, that *all* employers in the community revise their contracts with *all* unions, so that ultimately the Cost of Living Allowance and Annual Improvement Factor become universal features of our economic system. The Improvement Factor—which not being inflationary, need not bring about an all-round increase in the prices of the goods and services produced by the community—would be set up, by common consent, on the basis of statistical measurement, on a national scale and over a period of years, of the growth in average productivity per an hour.

What then? We should, I suppose, consider two possibilities:

(a) that generally speaking the statisticinas do perform their task of measurement successfully;

(b) that generally speaking they do not perform this task successfully but, instead, overestimate the rate of growth in average productivity per man hour.

We should note here that the statisticians would be measuring what *was* the rate of growth. But the future success or otherwise of these Agreements, from the standpoint of a possible inflation, depends on what *will be* the rate of growth in average productivity per man hour during the lifetime of the Agreements—and this, nobody can foretell. The statisticians may thus very probably succeed in measuring past achievement accurately. But let us suppose that average productivity per man hour is destined, from henceforth, to grow *less* rapidly than it has been growing till now! Then in the result these statisticians will have made an inaccurate forecast—and in terms of the practical purpose which prompted their investigation they will have been *wrong*. In other words, there is included above, in Supposition (b), this additional contingency: that the rate of economic progress to which we have been accustomed *might* slow down appreciably thus upsetting the best-conceived of scientific calculations.

In terms of the former supposition (I submit) universal inclusion of an Improvement Factor, in all wage agreements, will not—or at least, need not—have inflationary consequences. For since productivity per man hour grows during the life of these Agreements, at a rate not less than the covenanted annual increase in hourly wage rates, it follows that *unit labour cost* will not be raised thereby.

But consider the latter of these two suppositions. In this event, there is not an increase in hourly rates of wages.

Therefore, *unit labour cost* is increased and increased again as often as the date arrives on which the next annual wage increase becomes effective.

But (because *ex hypothesi* these arrangements have been made universal) increased unit labour cost is all too likely to necessitate, in due course, increased selling prices of goods and services, all round. These price adjustments ultimately take the form of a rise in the cost of living: the prices of the goods and services which, in the terms of this argument, have now become more expensive than before, *are* the cost of living.

No sooner does the government index of the prices of goods and services at retail (which measures officially, from time to time, current changes in the cost of living) reflect this all-round increase than —in terms of our supposed up-to-date wage agreements, all of them patterned on the new General Motors' Agreement— an all-round increase in Cost of Living Allowances becomes mandatory.

This in its turn—for it of course is accompanied by no corresponding growth in average productivity per man hour— raises unit labour cost again; and so gives yet another turn to the so-called "inflationary spiral." The process can thus become endless.

PERHAPS the most encouraging approach to the question—whether or not the General Motors' type of Annual Improvement Factor is likely to make for continued inflation—is to look at the record of the past: and ask ourselves, What *has* been happening to "real" wages, measured in "constant" dollars on an hourly basis, during (say) the past generation?.

Reference to the statistics of the retail cost of living, published by the Dominion Satistician and to the statistics of hourly wage rates, published by the Federal Minister of Labour, makes possible a comparison in these terms, between the general average of "real" wages, measured on an hourly basis, during the three prosperous years 1927 to 1929, and during the three certainly no less prosperous years, 1947 to 1949, which have already been used for purposes of long-term comparison.

On an average (in terms of *current* dollars) hourly wage rates in Canada rose by 96% during these two decades.

In the meanwhile, the retail cost of living, excluding rents, rose (and fell, but the long-term direction of change was upward) till its average level, during these years from 1947 to 1949, as nearly 30% higher than it had been between 1927 and 1929.

In other words, measured in "real" terms, the general average of hourly wage rates in Canada rose during the two decades by 51.4%.

These figures establish past all doubt that the living standards of Canadian wage earners, in general, improved at a very rapid rate during the period here named—which sometimes is described, by persons not particularly concerned for truth, as if it contained (alternately) nothing but unemployment and wartime hardship.

Nevertheless, this increase in the wage rate average, measured in "real" terms and on an hourly basis, of 51.4% corresponds with an average increase of only 2.1% annually: which is definitely less that the General Motors' Annual Improvement Factor of (say) 2.5%.

But when we turn from the general average of wage rates in all industries, for which the Department of Labour collects authentic data, to the corresponding average of wage rates *in Canada's manufacturing industries*, we find a very different and (with reference to this discussion) a most interesting picture.

On an average in these industries, and in terms of current dollars, hourly wage rates rose during the period under examination, by no less than 114.2%. Even after allowance was made for the next increase in the cost of living, during the two decades above mentioned (that is, when hourly wage rates, paid in this country's factories, are measured in "real" terms) it can be verified that the general average of such rates rose in the large proportion of 65.4%.

This corresponds with an average increase in hourly "real" wages of 2.5%

annually. Here we find exactly the figure which, it appears has been agreed upon as an appropriate Annual Improvement Factor, between the management of General Motors' Corporation and the leaders of UAW-CIO.

What is the percentage figure which expresses accurately the simultaneous increase in average "real" wage rates, reckoned on an hourly basis, in factories in the United States? I confess that I do not know. But speaking in purely personal terms, I should be not in the least surprised to learn, some day, that just as the respective recent rates of increase, in physical volume, of the Gross National Product per adult person have been almost exactly the same in the States and in this Dominion, so too, during the same years, the respective rates of increase in average "real" wages earned by wage earners in factories have been almost identical.

AWHILE back, I ventured the suggestion that, like from the standpoint of union and corporation, the making of these Agreements was a stroke of statesmanship.

That was before we began to measure, on a conjectured percentage basis, the covenanted Annual Improvement Factor in these two General Motors' Agreements against what is known of the percentage rate of increase in average "real" wages during the past generation.

We now find it may be the case that, in Canada's manufacturing industries generally, reckoned on an annual basis the recorded rate of increase in average "real" wages was the same as the rate of increase which the General Motors Corporation has undertaken, in these Agreements, to keep up during the next five years.

Canada (to the best of my knowledge and belief) is the sole North American source of evidence, by means of which to make a direct and comprehensive comparison, between actual enhancements of average hourly rates in past experience and promised enhancements in the future.

Would a conclusion such as this, which is suggested by Canada's experience (if it were proved to be sound) invalidate or seriously weaken our earlier encomium on both of the contracting parties?

I think not. It is of course necessary to ponder the question here stated, alongside that other ticklish question (not yet conclusively settled), to which we have been giving some attention, "Are these Agreements likely to produce inflationary consequences?

If we were to discover that the new fixed Annual Improvement Factor, which is to govern the future increase of wage rates in the G.M.C. plants, exceeds the rates which is indicated by recent experience as a possible long term objective (and therefore perhaps exceeds, as well, the most optimistic expectation which one is now justified in forming)—then one might perhaps fairly describe these Agreements as being the reverse of statesmanlike. For both union management and corporation management are in their own interests obliged to respect the limits of the possible. But we have reason to believe that, in the present instance, both of them have scrupulously tried to remain within these limits. If this be the case, then their common objective is both modest and practical.

Their desire is, evidently, to give the several hundreds of thousands of workers, covered by these undertakings as assurance that, for five years at least, they can without misgiving fashion their own private plans accordingly.

Their joint hope is, evidently, that our North American economy may succeed in maintaining during the term of their Agreements, a rate of technological progress which has in fact already been achieved and maintained on this continent for some time.

Precisely because the provisions embodied in them have been formulated in terms of the possible, I believe that, in respect alike of union and corporation, these Agreements are indeed evidence of economic statesmanship.

SCARCELY were the signatures dry, which ratified the Detroit and Oshawa covenants, when Korea's countryside was set ablaze. North America's acceptance of the communist armed challenge—involving potential commitments on our part, as well as on the part of Uncle Sam, which are unlimited—could not but complicate greatly the problems in the plants of G.M.C., which the signing of the covenants, of course, created.

There could be no better illustration of this than the new price-and-wage "freeze", decreed in Washington on January 26, 1951, as it applies to the General Motors' Cost of Living Allowance and Annual Improvement Factor. Translation into practical terms of the policy newly conceived at Washington, without abridging the contractual rights of workers covered by means of a still novel (and to some extent, experimental) wage agreement, will quite clearly demand of everyone concerned—not least, of the civil servants in Washington, whose task it is to master-mind the 1951 War Labor policies—both good faith and good humor: and on the part of the plant workers involved (as of all free men) willingness to give up present comfort, as the price of continued freedom.

But it would now serve no purpose at all, to begin conjecturing in this field.

Remains the question as to how to procure in adequate amounts, and continuously, the new capital equipment which is a pre-requisite of continuous increase in the volume of production per adult person and thus, a pre-requisite of continuous growth in the "real" income per head, of our still free society? In other words, how to sustain in perpetuity the $5 of additional investment which appear to be needed for each $1 of additional wealth production annually?

True, during this generation so far, the volume of investment *has* been able to support a 2% long term rate of increase in the physical volume of producion per adult person.

Meanwhile the relative importance of the several channels, down which flow the savings of the public, has been changed radically. Rates of tax in an already progressive system of direct taxation have, on balance, been made much steeper than before. As late as in 1947, the State appropriated and spent, mostly for current purposes more than one third of the total reported net income (including exempted income) of all Canadian income taxpayers reporting incomes in excess of $10,000. (It is not unlikely that, within a very few months from now, these rates—or at least, rates very like them—will have been restored.)

Under such circumstances, the question, "By whom is the saving to be made, which is necessary to the raising of our living standards?" becomes one of real urgency. It must be looked at, not mainly from the standpoint of individual citizens or corporations bearing heavy loads, but rather from the standpoint of the five million workers in all of our industries taken together, whose welfare ultimately depends, because their productivity per man hour also depends, on the rate of technological improvement which we can achieve and maintain.

Britain's tolerance of outworn technologies during the decades from 1919 to 1939, and her unfortunate position thereafter, in consequence of this persistent mistake, of late have emphasized vividly the need for a perpetual, increasing stream of investment everywhere, not in public works and housing projects only, but for the most part in active industries. There is no doubt that Britian's tolerance of outworn technologies was encouraged, during these two difficult decades, by the punitive rates of income tax, which were an inheritance from World War I.

But clearly the discussion of ways and means, to keep unobstructed in this country the stream of investment, would take us further afield than my commission from this journal entitles me to go.

"Frontiers of Industrial Peace" is the second of three articles on "Horizons of Tomorrow's Wealth" by Gilbert Jackson to be published in PUBLIC AFFAIRS. The third will appear in our Summer issue.