Economic Criteria for Wages

Stuart Armour

THE subject of wage-price ratios and their relationship to output has, of course, been dealt with extensively by a considerable number of authorities; and opinions are apt to vary with the predilections of those approaching the thorny subject. Hence, this article is going to say very little about "Tying Wages to Cost of Living" other than to quote the current issue of *The Guaranty Survey* of The Guaranty Trust Company of New York.

Here is what *The Survey* said:

> Wages are purchasing power; they are also costs of production. The desirability of high wages is too obvious to need defense. The economic welfare of wage-earners and their families is a matter of the greatest importance . . . Have real wages been raised by collective bargaining and direct governmental pressure, or by other factors?

The Survey goes on to show, by a series of charts, that a very close relationship has existed between changes in unit labour costs and changes in the price level over the period 1919-52. As *The Survey* points out, that thirty-three year period covered years of prosperity, depression, inflation, war and reconversion. "Labour costs and prices," says *The Survey*, "have actually moved together through a long period of sweeping economic changes and a wide variety of situations."

When it comes to the matter of comparing output per manhour with the ratio of wages to wholesale prices, the results shown in *The Guaranty Survey* are equally impressive. *The Survey* confirms what many economists and business men have tried to show—that output per manhour is the limiting factor in the rise of "real" wages. Moreover, *The Survey* says:

> The growth of collective bargaining has not significantly altered this relationship. As long as the over-all relation between output per man-hour and the wage-price ratio holds, it means that if a group of workers succeed for a time in pushing their particular ratio above the general average, they are merely gaining a temporary advantage at the expense of other workers.

This is in line with the economic research results recently made public by such Canadian authorities as Gilbert Jackson and Dr. O. J. Firestone.

Since output per manhour is in general itself limited by technological progress, and by the amount of capital invested, wage earners should surely pin their hopes for better living conditions on new investment in tools and machinery. If they did this they would oppose what *The Survey* describes as, "The almost confiscatory tax rates on business enterprise and higher-bracket incomes that drain off the bulk of the funds which would otherwise be available for such investment. They will cease to decry the industrial profits from which most of the investment funds must come."

II

THAT is undoubtedly what labour leaders should do. But what they will do is of course, quite another question—a question of very grave importance not only to every citizen of North America, but to all those who cherish Western civilization.

Let us consider briefly some of the implications of current thinking of labour leaders. This we must do because, while the question of wage-price-manhour output relationships has been of very great importance, it no longer appears to be the all-important subject confronting North American industry. For instance, our own steel unions are not demanding that their new contracts with us be formally tied to the Cost-of-Living Index.

In New York in January, I heard Boris Shishkin, the Economist of the American Federation of Labour, tell a meeting at which I was present that hereafter labour leaders were going to try to tie wages to the Gross National Product rather than to the Cost-of-Living Index. This is a new gimmick. Taken in conjunction with other germinating or already developed plans of the labour high command, it promises to help complete that revolution through which we may be said to have been living during the past decade.

Inasmuch as the Gross National Product has for its components: salaries, wages and supplementary labour income such as pensions, military pay and allowances, investment income, income of farm operators, income of other unincorporated businesses, indirect taxes—less-subsidies and depreciation allowances and similar business costs, it would seem that the leaders of organized labour would be trying to secure a grossly disproportionate and unfair share of the National production under any such scheme as that put forward by Mr. Shishkin. For instance, as the size of the armed services grew, or as indirect taxes increased, organized labour would presumably be entitled to higher wages—real wages, one assumes.

Yet Shishkin was not fooling. He was speaking in real earnest as a noted and respected labour man holding a position of enormous influence. His contention, and that of his colleagues, is that when wages are tied to the Cost-of-Living Index, labour is, in effect, put upon a treadmill, since it cannot hope to do better than hold its own. Inasmuch as labour, according to Shishkin, is making the greatest contribution to "the ever-more bounteous life", it is pretty obvious why organized labour—or the A.F.L. part of it at least—now regards contracts tied to the Cost-of-Living Index as, in effect, a form of exploitation.

Shishkin claimed that the percentage increase in the physical volume of Gross National Product per capita of population since 1933 had been greater than the percentage increase in real wages in the same period. He used this alleged disparity as evidence that labour was "low man on the totem pole"; a position he described as intolerable.

The argument has also been advanced, by others of perhaps equal authority, that the organized labour movement has been the great dynamic in the North American economy since 1939. The argument of such authorities runs that since the leaders of organized labour have forced upon a "reluctant" management the substitution of capital for labour through their demands for ever-higher wages, organized labour as a whole should be the principal beneficiary of the progress which has occurred at least since the end of World War II. This, according to labour economists and many of their academic brethren, has by no means been the case.

Those who hold that labour leadership has created the dynamic within the economy for the past decade or so, argue, if only by inference, that peace between organized labour and management is not wholly desirable: indeed, many of them openly hold that real and sustained industrial peace can only lead to a static economic condition which, in the long run, will be very much to the disadvantage of every element within the National economy.

This attitude will probably come as something of a shock to those who have long held that capital and labour should lie down together as the lion and the lamb. Practically all of our labour legislation has for its objective the achievement and/or the maintenance of labour peace. When social scientists and other theorists visit us they are apt to say: "Oh, if only capital and labour could learn to live together in amity, then, indeed, this would be the golden age."

III

FAR be it from me to disparage those who seek labour-management co-operation. It is certainly a goal worth striving for, in my opinion. But, as an economist, it is among my duties "to draw attention to unpleasant truths—to pick Utopian bubbles." Whatever we in management may desire, it is an established fact that some very smart labour leaders are convinced that sustained industrial peace is not an unmixed blessing. They hold this opinion quite aside from the fact that continuous harmonious relations betwixt labour and management might well decrease their own prestige and power. They apparently feel quite honestly convinced that conflict is a greater spur to an ever-higher standard of living than good labour relations. One of the most brilliant and persuasive of their apologists said recently, in Montreal, that when labour leaders and management got to like each other it was time for the consumer to hold on to his purse.

These, and other related views of highly-educated academic economists, may appear only as new manifestations of "the acquired imbecility of the very learned." Nevertheless, the influence of those who held such views is very real, and, I think, exceedingly dangerous—dangerous, in the long-run, to personal freedom, and, hence, of vital interest to every member of our liberty-loving society no matter what his occupational status may be.

It is, of course, a fact that if our economy is to remain dynamic the volume of production over-all must at least show a percentage increase per annum corresponding to the percentage increase per annum in the population. If the percentage increase in the volume of National production does *not* match the percentage increase in population in any year, then it is obvious that in that year, at least, the economy is not going forward but is tending to retrogress.

It has been stated by a noted Canadian authority that every dollar of increase in Gross National Product to-day necessitates four to five dollars of new capital investment. To the extent that the demands of labour leaders have forced or induced management to keep its volume of production going up by means of new capital investment there is at least something to be said for the argument that labour leaders have been the spark plugs of our recent progress. But what labour leaders who argue for antagonism between management and their workers choose to overlook or ignore is the fact that you cannot have the degree of increased production necessary to justify the substitution of labour by capital unless there is also a very considerable degree of management-worker harmony. They also fail to mention that the real progress we have lately made as a result of increased prouction has very largely resulted from enormous new capital investment.

Indeed, while labour leaders may have put forward demands for ever-higher wages with a view to forcing "the substitution of capital for labour" in the field of industrial production, yet, those same labour leaders have also demanded ever-higher corporate taxes, thus putting a squeeze upon profits—profits upon which adequate new capital investment must so largely depend.

Obviously the leaders of labour cannot hope to have it both ways. If they wish continuing substitution of capital for labour, then they must help make it possible for capital to accumulate. Such accumulation upon an adequate scale cannot take place in the face of "almost confiscatory tax rates" that "drain off the bulk of the funds which would otherwise be available for investment."

IV

IT is also my duty as an economist to point out that in pursuit of "the ever-more bounteous life", many labour leaders have now got themselves into the frame of mind which holds that jobs are a vested right of the worker. This may sound like a pretty extreme line of reasoning, but, strangely enough, its initial inspiration may, however unwittingly, have come from a very distinguished citizen of Canada.

In his award in the Ford dispute, which was published in *The Labour Gazette* of January 1946, Mr. Justice Rand said:

> It would, I think, be futile to try to fix detailed responsibility for the past unsatisfactory relations between the Ford Company and its employees. The primary and essential error lay, in my opinion, in what I have called an absolutist concept of property; the plant and business belonged to the Company; the Company was buying labour as a commodity; and labour had no more direct interest in the conduct of any part of the business than the seller of any other commodity. Whatever of fairness or reasonableness was to supplement high wages lay exclusively in the wiser judgment of management . . . This attitude could do only one thing; engender a like attitude on the part of employees; a deterioration into tension and hostility was inevitable . . . Critically, the failure is not so much ethical or economic as intellectual; with such a set of assumptions even a wholly mechanical administration could be accompanied by the conviction of righteousness. What astonishes me is the anomaly of a magnificent engineering plant, machines and functions, co-existing with a human engineering with so many apparent strains and frictions.

It does seem that when Mr. Justice Rand referred to "an absolute concept of property", and said that "the Company was buying labour as a commodity", he was, in layman's language, telling everyone to move over and make room for labour leaders to climb into the managerial bed.

Whether this is reading too much into the Rand decision may now be beside the point; for, in testimony before the panel set up by the Wage Stabilization Board to hear arguments of the steel industry and steelworkers in the United States, the United Steelworkers of America, C.I.O., put forward as one of the items on which collective bargaining should take place the recommendation that contracts should not talk of management "rights" but rather of management "responsibilities". The substitution of "responsibilities" for long-existing managerial "rights" has been held, by those who know more about such matters than I, to constitute in itself an industrial relations revolution. It certainly smacks of syndicalism; and Communist philosophers have argued that out of the clash between Socialism, of the extant Fabian or C.C.F. variety, and syndicalism will come true Communism.

In New York in April this year the Manufacturing Conference of the American Management Association was warned that some labour leaders were now out to establish the proposition that management had no inherent rights whatsoever. Leaders of organized labour, we were told, are now trying to establish that the only rights which inhere to management are those growing out of the collective bargaining agreement.

Whatever one may think of these new contentions, it would seem that the thinking out of which they spring is not very far from agreement with some of the propositions enunciated by Mr. Justice Rand in the rather lengthy quotation set forth above from his famous and far-reaching judgment. It might be profitable to re-read the Rand Award in light of these new developments in labour thinking.

V

UNDER the concept that the job vests in the worker, and, therefore, should not remain wholly in control of management, the severance pay proposal of the United States Steelworkers takes on some colour of logic. Under the C.I.O. Steelworkers' severance pay proposal any employee having been employed for three consecutive years would be entitled on separation, for any cause, to one week's pay for every year of service. Thus, a man going on pension after twenty-five years would be entitled on leaving to twenty-five weeks of pay. Under the job-vesting contention of some labour leaders this payment would, in effect, be merely the extinguishing of an equity established by reason of employment. It might also be more crudely described as selling the job back to the Company. Indeed, one of my friends has facetiously suggested that perhaps the workman concerned should be asked by management to sell the job to the man who is going to take his place, and thus leave the Company completely out of the transaction!

In the same way, under job-vesting, the theory behind the demand for the guaranteed annual wage is consistent; since this, in effect, is merely a device to get management to provide unemployment insurance to supplement any such insurance provided by the State. Under the proposal put forward by Phil Murray of the Steelworkers, each hourly-rated worker after three years' service would be guaranteed thirty-two weeks of income in each calendar year at his going rate. However, the amount paid by the Company would be less the amount paid by the State through unemployment insurance, with the proviso that after the worker became ineligible for State payments the Company would pay him at the full rate for the remaining portion of the thirty-two weeks covered by the contract.

Perhaps the most startling of the proposals which appear to be growing out of the argument that jobs vest in the workers is that no shutdowns or layoffs could take place save through collective bargaining. In other words, management could not shut a plant or reduce its working force without having the concurrence of the leaders of the union with which it had a contract. Presumably this would ultimately be a question for submission to conciliation and/or arbitration, and presumbaly at some point the State would be expected to step in if labour leaders and management were unable to agree as to whether a shutdown or layoff should or should not take place.

Business should not be caught flat-footed in the matter of job-vesting as it was a year or two ago in the case of industrial pensions.

Because industry as a whole refused to take industrial pensions seriously it was ill-prepared to meet the onslaught, with the result that industrial pensions were granted through collective bargaining although in the majority of cases industry had no remote idea of the costs of such a scheme. Even to-day very few industries in the United States have fully funded pensions plans, so that if a company ceases in any year to earn money it will presumably cease to have the wherewithall to pay pensions out of current earnings.

The political implications of that situation should be readily apparent. An industrial worker who has already been receiving pension payments is protected by the purchase of an annuity. But the worker who is to become eligible for a company pension in a given year—say this year or next—will not get that pension if the company operates in the red that year. What will the prospective industrial pensioner do in the face of such a situation? Is he not likely to turn to the nearest politician and demand that the State do something to protect his interests?

If the State is to be called upon to carry out the terms of a collective bargaining agreement, even if those terms have succeeded in bankrupting the industry concerned, then I feel the State will very soon have, perforce, to become a police State. When that happens no segment of the community will suffer more than organized labour. Recent history has proved that to the hilt. So the current ideas of many leaders of organized labour may well be laying the groundwork for the ultimate destruction of the whole labour movement.

Already Government intervention in labour disputes has done great violence to the practice of bargaining collectively. So far State intervention has generally been to the advantage of organized labour leaders and their followers, but this may not always prove to be the case. Certainly it is questionable whether our society generally has benefited by such intervention.

As Joseph A. Loftus put it in *The New York Times* of May 11, 1952—

> The citizen has a right to protection against certain strikes which affect his safety. But it is possible to protect him right out of the free enterprise system.
>
> There is no important evidence that we are going back to employer-dictated wages, but *there is evidence of a tendency to government dictated wages.* Labour Courts instead of private arbitration, compulsory arbitration instead of free collective bargaining, and seizures, even when authorized by law, are covers for, or just a step from, government-dictated wages.
>
> The advocates of these measures have only national-emergency strikes in mind, but who determines what is a national emergency?
>
> If the country is not willing to accept most strikes as a manifestation of a free economy at work, the alternative may be more and more government control.

VI

BUT how does one get it across to the rank and file of labour that when its leaders seek State support for their demands upon the National production they are endangering not only the freedom of labour, but the freedom of everyone? Frankly, as an economist, I do not know, but perhaps industrial relations men can find a means. It certainly seems to me imperative that they or some one do so, and do so pretty soon, if our society is to endure in its present form. My own feeling is that the rank and file of labour has amply demonstrated both its intelligence and its fondness for personal freedom. Such citizens are surely capable of being educated to the dangers which confront all of us if their leadership relies too much upon State intervention in labour matters.

On May 4, 1952, according to *The Globe and Mail*, Mr. C. H. Millard, one of our leading Canadian Socialists, told an audience in Orillia made up of two hundred steelworkers representing Southern Ontario locals:

> Some day we are going to rule this country. Some day there will be an international labour government whose task will be to take wages out of competition.

Surely the promise, or threat, to "take wages out of competition" can only mean that they will be arbitrarily determined and ruthlessly imposed by the State. Will that not also require the setting up of a police State indistinguishable from that now operated by the Kremlin?

In preparation for his proposed drastic change in the character of our Government—and that of the rest of the Western World—Mr. Millard advised the steelworkers that: "they had better learn more about Government, and educate themselves in Government."

In Germany, also, by coincidence, on May 4, 1952, co-determination, which gives steel and coal workers a direct voice in the plants which employ them, celebrated its first birthday. Under co-determination a steel plant director was fired recently because the workers thought he was anti-union. However, he is now back on six months probation. Perhaps in future he will refrain from saying that: "Co-determination is nothing more than bringing socialization of industry through the back door", which statement, he claims, was the basis for the charge of anti-unionism lodged against him. In the following week 250,000 workers in the German iron and steel industry went on strike to enforce a demand that they should be given a greater voice in management.

While the actual results of co-determination in Germany may still seem of only academic interest to Canadians, and while Mr. Millard is only promising what he will do at some future date, the British are to-day faced with demands that the promise implicit in a policy of "Full Employment" be quite literally fulfilled. The implicit promise made by politicians when launching a "Full Employment" programme is that any man who wants a job shall be furnished with suitable work under any and all conditions. Well, the employees of the Smith clock company at Cricklewood, England, have taken that promise at the foot of the letter. They have read into what might only have been intended as an implicit promise by Government a most explicit management commitment.

Here is the story as printed in the May 3, 1952, issue of the authoritative London *Economist*:

> Industrial relations in the welfare state have taken many queer turns, but it is a new and astonishing demand that has been made this week by the workers of the Smith clock company at Cricklewood. It is that redundant staff should be paid full wages to do nothing 'pending suitable alternative employment.' Their strike committee has declared that 'our members demand the right to work. Until the management or the Ministry of Labour can offer suitable alternative employment they insist on remaining paid employees of S. Smith and Son Ltd.' The company naturally rejected this preposterous request—and 1,200 workers therefore went on strike.
>
> "The dispute began on Monday when the Company informed the shop stewards that it would have to dismiss 200 or more production workers because foreign importers had cancelled their orders for $300,000 worth of clocks and watches . . . The shop stewards' reply was to call a mass meeting of the workers who resolved to stop working until their leaders' demand for continuous employment had been met.
>
> On Tuesday, officials from the local employment exchange summoned by the management, told the strike committee that other jobs were available; but the strike committee continued to insist that the company must recognise, as a 'basic principle,' its obligation to retain and pay redundant workers until they have found other jobs. This demand, as the Federation of British Industries assured the Smith company, has no known precedent.

The demand for full wages pending suitable alternative employment is, of course, right in line with the demand of our own labour leaders for the guaranteed annual wage.

The threat of this sort of action, and the thought which animates it, now so apparent in so many different quarters, may not be an immediate one to Canadian industry. But it is, nevertheless, one of those things about which every industrialist should be doing a lot of serious thinking. It should not be forgotten that we, too, have an official policy of "maintaining a high and stable level of employment and income."

Marx put it before the working class, as *The Canadian Tribune* is careful to record that it must "from a class *by* itself become a class *for* itself." Apparently some professed non-Marxians have now decided that the Marxian objective is worth striving after here and now.

The implications of that decision are quite terrifying for all of us who believe in freedom.

By The Sweat of Thy Brow . . .

In the long run nobody owes the British people a living and the point must come when they enjoy only that standard of living for which they are prepared to work.

The London Economist.