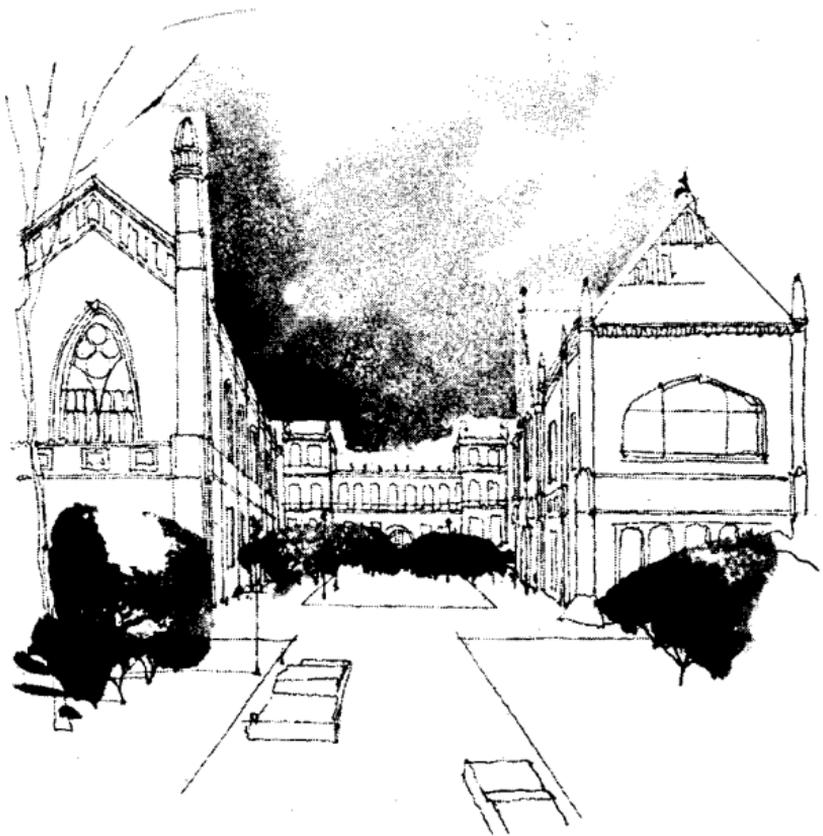


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# Productivity, Wages, and Prices

By **ALBERT REES**



**GRADUATE SCHOOL OF BUSINESS**  
**UNIVERSITY OF CHICAGO**

**ALBERT REES** is Professor of Economics and Public Affairs and Director of the Industrial Relations Section, Princeton University. Before coming to Princeton he was a member of the economics faculty of the University of Chicago from 1948 to 1966.

He has written extensively in the fields of collective bargaining, wage determination, wage-price relations, price indexes, and the relationship between labor unions and the price system. His book, **The Economics of Trade Unions**, was published by the University of Chicago Press.

In addition to his academic appointment, Mr. Rees is now serving as a member of the New Jersey Public Employment Relations Commission. He was a Fellow of the Center for Advanced Study in the Behavioral Sciences (1959-60), a staff member of the Council of Economic Advisers (1954-55), a research associate in the National Bureau of Economic Research (1953-54), and editor of the **Journal of Political Economy** (1954-59).

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# Productivity, Wages, and Prices

I should like to talk this afternoon about the relationship between wages and productivity. I do not think that I need to spend much time defending the importance of that topic at this moment because it figured very prominently in the recent steel negotiations.

Perhaps I should begin by defining some of the terms that I will be using. Let me start with wages, which I will use as a kind of shorthand to mean gross average hourly earnings plus fringe benefits. It is the entire compensation of the worker and not just the wage element of it. This becomes increasingly important because a large part of total compensation now consists of fringe benefits.

When I talk about productivity, I will mean an old-fashioned and familiar productivity concept, namely, output per man-hour. There are a lot of alternative productivity concepts that could be used, and some of them are more relevant for certain purposes, but, for the purpose of discussing wages, output per man-hour is as good as any.

On a previous occasion, when I talked about this subject, John Kendrick, of George Washington University, was with me on the program. He is more responsible, I suppose, than anyone else for the alternative productivity concepts that are beginning to be used. I was very glad to hear him say then that he, too, thought output per man-hour was the most relevant productivity concept for wage determination.

Both average hourly earnings or wages and output per man-hour can be measured either per hour of actual work or per hour paid for. In certain historical comparisons it makes a great deal of difference which concept we choose, because paid vacations, paid sick leave, call-in pay, paid jury duty, and paid holidays are becoming an increasingly important portion of total compensation.

Fortunately for the simplicity of my remarks this afternoon, it will not matter which of these concepts we choose so long as we choose the same one for wages that we choose for productivity.

So much for what I might call the clearing-away of the underbrush. Now let us talk about wage policies and their relationship to productivity.

An increase in wages can come from one of two places fundamentally. It can come from increased production—that is, increased output per man-hour—or it can come from some redistribution of the existing output.

Increased output per man-hour is frequently called “labor productivity” simply because it has man-hours of work in the denominator rather than units of capital, or units of all inputs taken together. But any factor of production can be responsible for an increase in output per man-hour. This increase is not something uniquely attributable to labor.

One may get increased output per man-hour because workers are working harder or because workers are more skilled. But one may also get it for totally different reasons. One can get it

through using a better quality of raw materials, if we are thinking about this at the level of the plant or firm. And, finally, one can get it through technological change. Technological change, often incorporated into investment, is, of course, the outstanding source of increases in output per man-hour.

Therefore, when we talk about rising output per man-hour, we do not mean in any way to prejudge the issue of claims against, or shares in, this rising output. Any one of the factors of production could have a part in causing this increase, and usually more than one factor will be involved.

Now, if we set aside for a moment the possibility of changing shares; if we assume that somehow the shares of labor and capital in output have been fixed, then a policy tying wages to output per man-hour has one obvious merit—and it is this obvious merit that has made the policy so popular. For this makes it possible to have a stable level of prices of final products. If wages go up only in line with productivity, unit labor costs do not go up, and, therefore, there is no cost-push pressure on prices.

I think it is this very simple relationship that has led so many people to suggest we ought to have a policy that somehow ties productivity and wages together.

I am going to take a skeptical view of such a policy this afternoon, and I might as well confess at the outset that I am in a very small minority of economists by doing so. The great majority of the people in my profession feel that a tie between productivity and wages is a very desirable kind of relationship to have.

There are two or three different ways of tying productivity and wages together. One way would be to do it industry by industry, or firm by firm, or even plant by plant—to measure output per man-hour, let us say, in the steel industry and let the wages of the steelworkers be related to output per man-hour in the industry. This will produce the result that we desire. There will be no changes in unit cost of labor

in the industry, and, therefore, no cost pressure on prices. What could be nicer? The same pleasing result will occur if we choose the firm or the plant as our unit.

But, when you start to inquire into this, you find there are some difficulties. Productivity changes take place very unevenly among industries, among firms, among occupations or sectors of the economy.

The ultimate result of tying wages to productivity industry by industry or firm by firm would be to develop tremendous disparities between wages of people doing similar work in different places. A man might get \$1.00 an hour if he were a janitor for the public schools and \$5.00 an hour if he were a janitor in a missile factory. This would impress us all, of course, as being inequitable. It would not only impress management as being inequitable, particularly the managers of missile factories, it would also impress the trade unions as being inequitable because, after all, they believe in equal pay for equal work.

Suppose that we had the policy in, let us say, the television-manufacturing industry of tying wages to output per man-hour, and suppose that we had commenced this policy in 1946, when the television industry was in its infancy.

If wages had been tied to output per man-hour back in 1946, workers would be getting fantastic wages in the industry today because it is an industry which was growing very rapidly, which was making rapid technological progress, and in which the output per man-hour was obviously going up much more than the average. However, we would also find the price of television sets much higher now than it actually is, because the great bulk of this increase in output per man-hour has actually been used, not to raise wages, but to lower the price of the product. That, of course, is as it should be, and that is the reason for objecting to the policy of tying wages to productivity at the industry level.

If we have an industry whose output per

man-hour is rising very much more rapidly than average, and if *our* goal for the economy as a whole is a stable price level, then, in that industry, prices should be falling-not just relatively but absolutely. There should be dollars-and-cents price reductions in that kind of industry, and, there have been very substantial ones in black-and-white television. This same reasoning will apply to color television. I do not think we want to say that the people who make color-television sets should have their wages tied to their productivity because, as volume expands, their productivity is going to go up very rapidly, and their jobs may actually become simpler rather than more difficult.

Take the other side; take my job. I am a teacher. There is a lot of talk about teaching machines, but as yet they are not widely used. If we measure productivity as we usually do, then the only measure that we would have for teachers would be something like pupils taught per year. That seems to be going down, as we feel a preference for smaller and smaller classes. So, of course, the type of policy we have been discussing would mean that we should give dollars-and-cents pay cuts to teachers because the number of pupils taught per teacher per year is falling. It would be very difficult to hold people in the 'teaching profession under that kind of a policy.

If there is an industry or occupation that is valuable to society and that, nevertheless, has measured productivity increases lower than the average for the economy as a whole, then in that industry wages and salaries will have to go up faster than output per man-hour in order to hold labor in the industry. Again I think that this is as it should be.

Therefore, this seemingly attractive policy of tying wages to productivity at the industry, occupation, or firm level, were it to continue through any long period of time, would lead to an intolerable mess-and the policy therefore has to be rejected.

**We very** often see arguments in the press, or

hear discussion between union and management people, about whether productivity or wages has been going up faster in a particular industry. In my judgment, 'this is of no relevance at all for wage policy. If somebody attempts to say something about wage policy this way, the best thing to do is not to argue about the figures and say, "Well, you are not measuring productivity correctly or you are not measuring wages correctly," but to say, instead, "It really doesn't matter and, therefore, why dispute it?"

This brings me to a policy which is not so easy to dispose of—the policy of tying wages to productivity at the national level. This policy says that wages in each industry, in each occupation, should rise in the same amount as productivity in the economy as a whole. That is a very popular policy these days.

I suppose the start of it, more than any other one thing, was the United Auto Workers-General Motors agreement of 1948, in which there was negotiated (more or less at the instigation of the company) the so-called annual improvement factor. This said that over and above the increase in the cost of living, which was also covered in the contract by an escalator clause, the workers at General Motors were to get an annual real wage increase. The clause has been continued right down to the present day. In the current contract it is a stated number of cents per hour, or  $2\frac{1}{2}$  per cent per year, whichever is larger.

Two and a half per cent is just about in the middle of the range of estimates of the long-term increase in output per man-hour for the economy as a whole, and so the figures are related. Also, in arguing in favor of this arrangement, both the company and the union have made the statement that this provision has something to do with productivity increases.

Similar contract provisions are contained in the labor agreements in many other collective-bargaining situations. However, in industries

that do not bargain with the United Auto Workers, it is much less common to call such provisions something like an annual improvement factor or to talk about them in terms of productivity. They are generally just a built-in wage increase, stated in the contract as so many cents per hour, and there is no sort of intellectual rationale offered for them.

In addition to its use in collective bargaining, we find this kind of policy advocated at very high levels in the federal government. One might say that this has been a non-partisan policy in the federal government.

To my knowledge, the first strong plea for tying wage increases to national increases in productivity was made during the Eisenhower administration, when the Council of Economic Advisers put a strong plea of this kind in Mr. Eisenhower's report. You will find it again this year in Mr. Kennedy's economic report, written, I presume, by his Council of Economic Advisers.

When the Joint Economic Committee held hearings on Mr. Kennedy's report, two members of the preceding Republican Council of Economic Advisers testified on it, and both said they thought this part of the report was just fine. I am going to criticize this policy, one which has had the full approval of both the Eisenhower and Kennedy administrations, and this leaves me up here all alone.

Why is it that there are weaknesses in this policy? Let me come back again to a point in my earlier remarks. The policy has the effect of freezing labor's share of income, especially if you define wages as I have done, to include fringe benefits. The slices of the pie would always remain exactly the same number of degrees, if you like, as they were when the policy was first inaugurated.

Now, I have no particular reason to think that labor's share of income is either too large or too small right at the moment. On the other hand, I have no reason to think that it is exactly right.

And I certainly see no reason to assume that the same shares will always be appropriate despite changes in future conditions, whatever those future conditions might happen to be.

It is sometimes said that labor's share of income has been stable in the past and that, therefore, it should be stable in the future. I think that a careful examination of the historical record will show this has not been true. A very good article by Irving Kravis, of the University of Pennsylvania, appeared in *American Economic Review* about two years ago, in which he measured labor's share of income in a variety of ways and showed, in any way he measured it, that it had been increasing slowly with time.

Of course, the position of the union on this is that labor's share should continue to increase. Indeed, that is what they are in business to do. And the United Auto Workers, who helped to start the whole thing in the first place (if my history is correct), have never accepted the implication that labor's share should be frozen. Not only that, but they have not accepted it in practice. They have not been content simply to collect their annual improvement factor. Every time that the contract has been opened for renegotiation, they have negotiated improvements in fringe benefits. They have negotiated pension plans, they have negotiated supplementary unemployment benefits, they have negotiated guaranteed work weeks-and all this over and above the annual improvement factor. Therefore, it is quite clear that labor has not been content to live by this policy. And, indeed, the managements involved in the automobile, agricultural implement, and aircraft industry contracts-those covered by UAW contracts-have *agreed* to improve the wage-earner's share of the total income generated in those industries.

I will say in defense of the Economic Report of the President for January, 1962, the first Kennedy report, that it is the first such report to point out the income-share implica-

tions of this policy and to express some concern over them. Its answer to this problem is that any company and union wanting to re-bargain their shares should be free to do so—but within the framework of constant prices. Of course, it may be a little bit more difficult to bargain shares that way, but then at least the problem has been admitted, and I think this is progress.

The second difficulty is that, if every industry and every firm increases its wages in proportion to average productivity in the nation as a whole, there is no room for taking into account in the bargaining process, or the wage-determination process, the peculiar circumstances of the local labor market, of the company or of the plant; and I believe that these are all relevant to wage determination.

Again, the current report of the Council of Economic Advisers (and I distinguish this from the President's report because they are now two separate reports) represents a step forward on this point. I believe that the person who first started talking about this was Professor Abba P. Lerner of Michigan State University.

In his original statement, made in the late forties, he provided for special increases and decreases in wages to be added to or subtracted from the national formula according to the state of the local labor market. That kind of thinking has now gotten into the report of the Council of Economic Advisers, which states very clearly that, where there is a shortage of labor in the market in an occupation or an industry, then the wage increase should be more than the national increase in productivity; where there is surplus of labor in the market, then it should be less. It also states what may boil down in many cases to about the same thing—that where unions have in the past been very successful and have had a great deal of bargaining power so that wages at the initial date are very high, future wage increases should be less than the average called for in the formula. In the reverse situation,

where unions have been weak and had little bargaining power and therefore wages are low, the increase should be more than the average called for in the formula.

In its report the Council of Economic Advisers was able to do something which worked very nicely—they were able to state what the economists would accept as valid, general principles and to state them in a form and at a time when they produced the result that was desired in the collective-bargaining negotiation immediately confronting the Council, namely, that between the steel industry and the United Steelworkers. There is an excess of labor in the steel industry—there are many people unemployed and laid off who have substantial amounts of seniority and whose prospects for re-employment at the moment are not good.

It was through having a very strong union that the workers in the steel industry had made very substantial gains in the past—much more than those of other comparable unions. Therefore, the Council's policy could certainly be used to argue that the steelworkers should not get more than the national average increase in productivity.

The government, as you know, intervened rather directly and forcibly in those negotiations. Arthur Goldberg, who knew the negotiations intimately because he had participated in them for many years as attorney for the Steelworkers, participated in them this year for the first time as the Secretary of Labor. He was able to get a settlement that appeared to be consistent with this formula, and he was able to get it without a strike. On the face of it, this was not only a notable achievement, and one that Secretary Goldberg and President Kennedy could be proud of, but also one which the industry could be proud of.

However, when we start digging deeper, one wonders whether the settlement was all in all consistent with the formula as modified in the fine print in the back of the report. It is true

that we have a settlement calling for labor-cost increases smaller than those in previous steel settlements. From that point of view, it is what the President has termed a “non-inflationary” settlement. However, the fine print in the formula called for special consideration of circumstances of labor surplus and for special consideration of very large past union gains.

The formula taken as a whole could have been used to argue either that the steelworkers were not entitled to any economic improvements in their current contract or, if they were entitled to improvements, that these should have been substantially less than those represented by the average increase in productivity in the economy as a whole. That, of course, was not the result. If we look into it more carefully, we find that the administration did not really make the formula stick-not if we read the formula together with the qualifying clauses and the ramifications.

I am somewhat uneasy about this formula, despite the success of the administration in getting a steel settlement without a strike and at a relatively modest figure compared to past settlements. It is very easy for the government to bring pressure to bear on the steel industry. The steel industry has one set of negotiations covering eleven firms and representing the bulk of employment in the industry. Put pressure on this settlement, and you have it made. It is all there in one spot. You know who the people are-you can call them all up on the telephone. It is very amenable to control from the city of Washington.

However, our whole economy is not like the steel industry. We have, for example, the building ‘trades, where there are literally thousands of local settlements taking place all over the country. We have the trucking industry and related industries, represented by the largest trade union in the United States-the International Brotherhood of Teamsters-with the toughest and most aggressive labor leader in the United States (now that John L. Lewis

has mellowed) in the person of James Hoffa. It is not going to be easy to apply these formulas to James Hoffa or to the building trades. You are not going to know where to find the points at which to apply pressure. I suspect the danger resulting from 'this, over a period of time, will be that those industries that are amenable to control from Washington are going to be controlled and a lot of others are going to be uncontrolled because you cannot get to them. Therefore, if we go that route, we will eventually develop an inequitable wage structure.

If we set up some machinery that would control the building trades and similar industries, it would mean peacetime wage-and-salary controls—a peacetime counterpart of the War Labor Board. This would scare me even more, because I think that then you get the widespread development of formulas that do not take into account local circumstances, the market forces that do get reflected at the bargaining table. One of the virtues of our decentralized system of wage determination is that it does take these into account.

I have talked about the difficulty of applying the formula to the strong unions. It also has some disadvantages in connection with the weak unions, especially if the objective of the policy is to hold down wages, as I am sure it is.

Where you find a weak union, one that has unemployment among its membership or where, for one reason or another, the members are reluctant to take a strike, that union is very often willing to make a settlement that calls for no increase or for a very modest one.

I have heard reports originating from people in the Federal Mediation and Conciliation Service indicating that the formula has made their job more difficult, especially when a weak union is involved. Where previously management and the union might have agreed that it was not in the cards to have a wage increase at this particular time in this firm or industry, the union now says: "Well, the Pres-

ident says that we are entitled to a wage increase equal to the average increase in output per man-hour in the economy. Are you as the employer going to tell us that we cannot even get what the President of the United States says we are entitled to?"

This is something that may make collective bargaining with the weak unions more difficult and more expensive, and it could lead to more strikes in those situations.

I should like to conclude by touching on some broader considerations.

I think one has to worry about the whole question of how much the government ought to participate in setting wages and prices, at least during peacetime, in a free-enterprise economy. We can have a series of decisions, each of which may look sensible and may be very popular at the time it is made, and, yet, in the long run, the impact of a series of such decisions and interventions could be to undermine the kind of economic system that we have had, which, I think, most of you will agree has been a pretty good one.

Therefore, I get a little bit scared about some of these interventions. And I get a bit more scared when they seem to be highly successful and highly popular than when they are unsuccessful and unpopular.

I think, too, that we want to be very, very careful about justifying this kind of thing in the name of the balance of payments. We are perilously close to an economy where we are letting the tail-foreign trade-wag the dog, which is the domestic economy. If our problem is gold outflow, then I do not really think we should be dealing with this through employment policy, through wage policy, through price policy. I do not think that it should become the determining factor in every economic decision that needs to be made.

There is nothing sacred about the price of gold being thirty-five dollars a fine ounce. That is the one economic policy decision that nobody ever thinks of talking about-the pol-

icy decision about what the price of gold should be—something which has been the same for close to thirty years and which we, therefore, do not think of as a policy variable. But it is a policy variable, and maybe we would do better to have a free market in gold. This would also permit us to have freer markets in steel, wheat, and some of the other commodities and also in labor services.

**QUESTION:** Can you comment briefly on ability to pay as a criterion for wage increases?

**MR. REES:** This is an argument used by a union bargaining with a profitable firm. It has the same disadvantage as tying productivity and wages at the level of the enterprise or firm because it means that, for the same work, people will be paid more if they are working for a profitable employer than for an unprofitable one. I do not know whether this would help those of us who work for non-profit institutions.

However, let us take for example the Chicago, North Shore, and Milwaukee Railroad, where union members do not believe in ability to pay as a principle in wage determination. Of course, the unions will tell you that the laborer is worthy of his hire, whether or not the employer is making a profit. And, if the employer cannot make a profit, it should not be up to the wage-earners to subsidize him; that is his problem. I think that they are right, but then I think that they should also accept the opposite side of the proposition—that, if the employer, through his imagination or energy, does succeed in making a profit even while paying the going rate of wages, this, in and of itself, is no reason for arguing that the wages should be increased.

**QUESTION:** I would like to have you comment further on employment in relation to the state of the labor market.

**MR. REES:** One of the things that has been lost sight of in wage determination is the state

of the labor market. In many cases we would get a good result and a result that could be agreed upon fairly readily if we raised wages when somebody was short of labor of a particular kind or variety. I was recently talking to an employer in a primary metals-manufacturing business who indicated that they were terribly short of metallurgical engineers, that enrolments in engineering schools were down, and that a continuing shortage was expected here. This seems to me to be a very good argument for giving metallurgical engineers some pay increases and thus perhaps attracting more people into the profession.

On the other hand, take an occupation that seems to be on its way out, one with large surpluses of labor. Take, for example, the occupation of locomotive fireman, where a presidential commission has recommended that a large part of these jobs should eventually be abolished. This, I think, should be a good reason for not paying substantial wage increases to locomotive firemen.

I do not say that the market is the only thing that should be taken into consideration, but I do think we tend to lose sight of it, and it ought to be in the picture more than it has been in the recent past.

This is my fundamental objection to these formulas—they ignore the state of the market.

**QUESTION:** Do you think that you can do business with unions under this policy?

**MR. REES:** To some extent you can. That is, unions with large numbers of unemployed members are more worried about employment stability than they are about wage increases. This has even come out in recent steel negotiations. It is true that there was an increase in labor cost in these negotiations, but it took the form of fringe benefits which will tend to spread the work among a larger number of people. Therefore, the consideration of the union in those negotiations was for job security and not for higher wages. I think that this will

be typical of unions that have experienced very heavy unemployment among their members.

**QUESTION:** It seems to me that, if you follow a policy of raising wages, say,  $2\frac{1}{2}$  per cent a year and within a framework of stable prices, this implies an increase in shares to labor rather than a fixed share.

**MR. REES:** It would imply increasing shares only if the average increase in productivity turned out to be less than  $2\frac{1}{2}$  per cent. If the two are equal, then the shares are constant. Now, if that does not appeal to you intuitively, then, through the use of a little algebra, you can work it out. I have worked it out several times, but I do not think that I will try to do it here because I can never make it come out unless I am off by myself.

**QUESTION:** You did not say very much about the shift in labor from one industry to another. Do you feel wages or wage increases that are tied to productivity tend to solidify this? What do you think of retraining programs?

**MR. REES:** Of course, different rates of wage increase do create incentives to mobility, and the productivity wage formulas may interfere with this. As for retraining, we are going to have more of this both at the company level and at the national policy level—we are going to be devoting much more attention to retraining, relocation, and other programs for getting labor trained and moved where it is needed in order to get the job done.

The situation toward which we seem to be heading is one of moderately full employment—reasonably satisfactory levels of employment for the economy as a whole. But they are going to be made up of rather intense shortages in certain occupations and rather disagreeable surpluses in others.

We have just passed two pieces of legislation with regard to this—the Area Redevelopment Act and the Manpower Training **Act-in an** attempt to solve some of this problem. **I think**

these pieces of legislation are going to produce a lot of disappointments in the early stages, but I hope that through them we will develop experience which will enable us to do a better job of increasing labor mobility.

I might also say that at the level of the company there is likewise some very interesting work being done, particularly in the meat-packing industry. The United Packinghouse Workers and Armour set up an automation fund which was used to finance a retraining program for displaced packinghouse workers in Oklahoma City, and here again one learns that it is not easy—that there are lots of problems. However, I think it is important to develop this kind of experience.

**QUESTION:** Would you comment on the minimum-wage factor in relation to the discussion you gave us today?

**MR. REES:** Well, I have not said anything much about the minimum wage because it is relatively unimportant in our economy. It affects a very small number of workers. If one is going to have a minimum wage, then I see no particular objection to tying it to a productivity formula—to saying the minimum ought to go up  $2\frac{1}{2}$  per cent per year, provided, of course, that it is not too high to begin with.

Actually, our minimum wage has gone up in a series of jerks or starts rather than by any smooth formula. If in 1938 we had started with a formula approach, it might have been better than the step kind of a pattern that we have had. However, I think the main problems with the minimum wage are rather different ones: It may have a very undesirable impact on employment in the heavily affected industries.

The minimum wage is really northern legislation by which we in the North have tried to protect ourselves against competition from low-wage industries in the South. If I were a southerner, this would bother me a great deal; it bothers me a bit even so.

If you look at the roll-call votes in the Con-

gress on increases in the minimum wage under the Fair Labor Standards Act, you will find a solid regional alignment—the northerners are always for increases, whether they are Republicans or Democrats, and the southerners, almost all Democrats, are always against it. However, when it comes to expanding this to local service industries, such as laundries and dry-cleaning, then the northerners begin to get worried. When the legislation starts to have an impact in their states, they often are not for it. You then begin to see the regional blocs breaking down.

**QUESTION:** With regard to changing of jobs and retraining for other work, do you think that it is the desire of the majority of displaced and unemployed workers to go through with something like this?

**MR. REES:** Of course, I can see no reason why a displaced railroad worker or steelworker would not want to be in a job in another industry. But, then, in the final analysis, he is at present not qualified for some of these jobs, and incentives alone, without qualifications, will not get him to move or relocate. Nobody wants to uproot their family and go looking for a job and then discover, when he gets to another portion of the country, that the employer has no job to offer or will not hire the individual because he may not have the qualifications that were being sought.

Some of the older small-scale retraining programs, such as the one at the Technical Institute of Southern Illinois University, have had a rather good record of being able to place people who have come out of depressed areas. They train workers from southern Illinois and place them in St. Louis or Chicago job markets with new skills like those of automobile repairmen, appliance and television repairmen, or something of this kind. They find jobs quite readily.

**QUESTION:** Would you comment about the

attempted effort to increase steel prices in relation to the wage settlement?

**MR. REES:** I think that the price increase probably could have been justified on cost grounds, not so much in terms of the cost of the most recent wage settlement but through the fact that the industry had absorbed a series of cost increases over a period of almost four years without a price increase.

In view of the kind of justification that was present there, President Kennedy's remarks struck me as being somewhat harsh and intemperate. Indeed, I was quite surprised by the tone that he took toward the industry.

It seems to me that, if one has respect for the free-enterprise system, one should not be quite so severe on people who are trying to do what they think is in their best interest as executives. On the other hand, there were some reasons quite apart from government intervention why this price increase might not have been desirable. Here I am thinking of the competitive situation in the market. The steel industry is faced by competition both with other materials like aluminum, plastics, and cement and with the foreign producers of steel who have been coming up strong with an expanded capacity. These foreign producers, with their modern plants, have been increasing the shipments of their steel products to this country.

Therefore, I think among the companies that did not increase prices, market conditions or considerations may have been as important as government pressures.

While I am not unhappy about the final results, I think perhaps it is unfortunate the government is getting credit for all of what happened. The fact that some people within the steel industry themselves felt this increase was not wise is being overlooked more than it should be.

If we have to choose between two kinds of government intervention in the industry-the

sort of determination in Washington of what is or what is not a permissible price increase or permissible wage increase and the other which we might call a "restructuring of the industry"-I would be much happier with a restructuring of the industry. I think that we might be better off to break the United States Steel Corporation into three or four medium-sized steel companies and leave them alone, rather than to have it stand as a lightning rod for the wrath of every President.

I wonder if stockholders and management, and even the union, might not be better off, say, if no company in the industry were bigger than Republic or perhaps Inland is today and if, having achieved this, we leave the managers to do their own collective bargaining and make their own price determination, rather than try to have the Council of Economic Advisers do it for them.

The Council of Economic Advisers is an extremely capable group of people, and they have an excellent staff; but they are no substitute for the wisdom of managers all over the country trying to run their own businesses.

**QUESTION:** From your remarks about United States Steel, I am not quite clear whether you are recommending that government break up United States Steel or that, in the interest of the free-enterprise system, United States Steel decide to break itself up.

**MR. REES:** The latter strikes me as rather difficult to imagine. When we tell Johnny we are going to give him certain punishment which is in his own best interest, we usually mean that after a time he will realize it is in his own best interests but that he does not realize it now. I cannot imagine a voluntary dissolution of the United States Steel Corporation. However, let us take a different case. Let us take Standard Oil, which is one of the few companies that ever has been dissolved under an antitrust proceeding. I do not think it was dissolved in the most intelligent possible

fashion perhaps, but, if we were to talk today to the executives of Standard of Indiana or of New Jersey, I think that they might say, forty or fifty years after the fact, that this possibly was not a bad idea. However, I do not think that any of the executives of the old Standard Oil Company before dissolution would have taken the same position.

**QUESTION:** Would you care to comment on whether you think any of the profit-sharing plans would solve some of the wage-price problems?

**MR. REES:** I certainly am not opposed to profit-sharing plans where they are initiated by a company or where they are initiated through voluntary collective bargaining. I think this is one kind of bargain that a union or company might well find made sense under a particular set of circumstances.

However, I certainly would be opposed to any sort of a law that required profit-sharing—any law that imposed this as a feature of all collective-bargaining agreements or of all employment relationships. It very often makes sense for a company that feels it does not have a great deal of ability to pay at the moment, but does have a lot of potential. If the company gives a wage increase in terms of profit-sharing, perhaps it gets a greater degree of cooperation from its employees in achieving this potential than it would otherwise.

There are certain desirable incentive aspects to profit-sharing plans. However, there are also other incentive plans that can be used.

**QUESTION:** Do you think that one should break up the United Steelworkers as well as breaking up United States Steel?

**MR. REES:** That is a good question. If unions were solely economic organizations, then I think I might answer that in the affirmative. The difficult part of this is that the union performs many functions, and wage-bargaining is only one of them. It performs

functions such as grievance settlement, and it is also to some extent a political organization. It represents wage-earners in the political scene in Washington in the same way that the National Association of Manufacturers or United States Chamber of Commerce represents business there.

One of the reasons why I have been reluctant to advocate any breaking-up of the large national unions is that, because we have vigorous and powerful unions, we have wage-earners in this country who believe in our kind of an economy. They feel that their interests are represented in it. If you contrast the United States with any European country, you will find that almost universally workers there are opposed to free enterprise on principle—that they all have socialistic or communistic unions of one kind or another.

I think if we took repressive measures against our present kind of labor organizations, the political consequences might well be new labor organizations of the kind, let us say, of the IWW, that are fundamentally opposed to our whole economic and political system.