An economic analysis of public labor policy

Lester Blum
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UMI
AN ECONOMIC ANALYSIS OF
PUBLIC LABOR POLICY

by

Lester Blum

A Dissertation Submitted to the
Graduate Faculty in Partial Fulfillment of
The Requirements for the Degree of
DOCTOR OF PHILOSOPHY

Major Subject: Economics

Approved:

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Iowa State College

1945
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PUBLIC POLICY AND ECONOMIC RESPONSIBILITY

Economic Analysis and the Labor Problem

The broad field of labor economics has been experiencing the pattern of expansion undergone by most other specialisms in the past. Numerous studies have been made dealing with labor legislation, trade-union behavior, unemployment insurance, wage theory, and labor problems during prosperity and depression. Although labor economists divide the field into rather arbitrary categories few include perhaps the most significant area: labor policy. This may at first seem odd, since the term labor policy appears frequently in the literature. This study, however, attempts to show that the term, as it is currently being used in the field, is misleading. A distinction should be made between "industrial relations policy" and "labor policy". Industrial relations policy deals with the rights and duties of the parties in their contractual relations with each other and the extent to which government ought to intervene in the settlement of lawful industrial disputes. Labor policy concerns itself with the regulation and control of labor markets for the purpose of modifying the play of economic forces affecting the allocation of resources and the level of employment in the economy. It is the latter rather than the former area which this study intends to investigate.

In contrast, such fields as agricultural economics and public finance both provide positions of importance to agricultural policy and monetary-fiscal policy, respectively. This is not intended as a criticism of individuals working in the field of labor. It reflects a somewhat unsatisfactory state of economic theory itself. Policy questions frequently arise which
unfortunately involve tools of analysis yet to be developed. Furthermore
the borderlands of labor economics — the sociology, psychology and politics
of labor problems — are not easily excluded. In fact they perhaps will
ultimately provide the economist with the required analytical tools.

These difficulties however are not insuperable. It is still possible
to block out the major criteria to be used in analysing policy questions.
And a new orientation lying within the framework of economic analysis rather
than legislative or historical description needs to be developed. By no
stretch of the imagination is the discussion of labor legislation in the
purely legal sense adequate for dealing with governments' activities affecting
labor-management relations. Government by its very nature must follow the
path of legality in affecting its policies. An evaluation of the policies
themselves, however, requires criteria of an extra-legal nature — in the
present case, the economic consequences of specific governmental decisions.
Moreover, with the proper economic orientation, appropriate legislative en­
actments designed to meet specific labor problems may in fact lie outside of
the labor framework, per se.

A complete history of labor legislation transcends the framework of this
study. Although many cases and legislative enactments are included in the
discussion they serve only to illustrate the long-time transformation of the
public's interest in labor questions. The emphasis placed on the early period
of our history reflects the author's feeling that the requirements of a labor
policy, directed toward fundamental economic problems, are most clearly ex­
pressed in a relatively simple, primitive economy. The issues of the time
are not clouded by a major concern over "industrial relations". The effects
of wage - price decisions on resource allocation as well as the impact of economic progress on labor markets are clearly perceived.

As the study progresses chronologically, economic progress and its attendant privation act as a stimulus to the growth of workman's organizations. Initially, this manifests itself in the form of socio-political demands by these organizations. Later, with the advent of the factory system, more immediate claims are made for increased income, shorter hours and better working conditions. The growth of trade unions, a necessary condition for achieving these claims, is at once hindered by prevailing concepts of property rights and legal institutions. Labor's struggle to overcome these barriers and the events leading up to the present period wherein the public concerns itself increasingly with "industrial relations" problems are briefly considered and documented. The passage of the Wagner Act serves to illustrate this concern. The Act is of interest to us, however, only because it represents the fulfillment of labor's long search for equality of status. Since it does not represent a complete labor policy, it receives rather limited treatment. The Taft-Hartley law is also treated in a perfunctory manner for the same reason. It merely represents a continuation of the power struggle between labor and management. This statement is not intended to deprecate the importance of this struggle. It serves simply to reinforce our initial distinction between "industrial relations policy" and "labor policy". The former involves power-relations between business organizations and trade unions, together with collateral administrative, legal and procedural issues. The latter involves properly economic questions in regard to the determination of wages and prices. Concretely, of course,
"industrial relations" refer to economic goals or objects, and therefore in the concrete sense "industrial relations" overlap into "labor policy". While this is fully recognized the distinction between the two is maintained in principle, and we may reiterate that our primary interest is in the latter. This study views both the Wagner Act and the Taft-Hartley law primarily in terms of the impetus given trade union organization. Secondarily, and more important for this study, are the effects of such organization on the determination of wages, prices and the level of employment.

Because society recognizes the need for broader policies dealing with periodic fluctuations in income and employment the remainder of this work devotes its attention to the problem of integrating "labor policy" with the twin goals of full employment and continued economic growth.

In the present study an attempt will be made (1) to pull together the many investigations which have contributed to the area of "labor policy" as a bona fide subdivision of labor economics; (2) to explore the existing gaps in economic theory as they apply to questions of labor policy; and (3) to anticipate the major pathways to be followed in the future.

Government Policy and the Labor Problem

During the two hundred and seventy odd years of our national existence labor has been subjected to a multitude of orders, controls, and directives. For the most part these represent policies used by government to solve basic problems affecting either labor directly or the economy at large.

One notices, in tracing these policies, a continuous thread leading to our present extension of governmental influence in the area of economic
control. On a few occasions a positive policy was noticeably lacking, emphasizing a laissez-faire philosophy dominating governmental decisions. For the most part, however, the problems confronting labor, as our economic system grew more complex, were not capable of solving themselves. They demanded continuing intervention on the part of government.

It is the purpose of this section to describe the various policies and programs instituted by government to solve labor's problems, first, in a predominantly agrarian economy, second, in an expanding industrial economy, and third, in a relatively complex economy.

Although policy considerations are usually couched in legislative enactments, early labor policy was determined through judicial interpretation. Public and court opinion evolved through a series of stages finding its beginning in the early colonial or agricultural period. In this period the man without property was looked upon as partly shiftless, partly vagabond, partly criminal, and the opinion of the time supported many kinds of coercive laws by which both adults and children might be captured or enslaved or otherwise compelled to work. In this way it was considered that propertyless laborers would be trained in the habits of industry and thrift by which they could rise to the position of proprietor and could share in the rights and civilization of their superiors.¹

This early period is of particular interest because of the extensive experimentation in the use of social and economic controls. The mercantilist philosophy was an important influence in shaping colonial labor policy. Moreover, the colonial period marks a real beginning in the efforts on the part

of government to regulate man’s economic activities, temporarily abandoned during the industrial revolution, and further augmented as our economy grew more complex and mature.

Because of the extensive use of controls in colonial America, this period is of further importance in that it provides the framework of English law which guided the decisions of the courts from the War of Independence to the post Civil War period.

**Early labor policy**

Describing the English influence, Morris points out that the controls for the regulation of commerce, industry and labor which were introduced in the English colonies in the New World were to a large degree rooted in English and Continental experience. However, in studying these controls it must be borne in mind that the labor problem was only one phase of the general problem of economic regulation under mercantilism. A study of the labor codes apart from these general controls would serve to give labor matters a false emphasis for that time and place.¹

However, in order to appreciate the attitude of colonial administration in regard to both commerce and labor it is necessary first to look behind the English mercantilistic system. It is the transplanting of this system within the institutions of the New World that furnished the background for the policies which were later adopted.

The Acts of Trade and the Tudor Industrial Codes were the fundamental devices employed by England to enhance her world position.

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The former provided for the external regulation and control of foreign trade and the subordination of colonial interests to those of the mother country. The latter sought to assure profit to the English entrepreneur by guaranteeing him an adequate supply of labor at a subsistence level and at the same time to safeguard the worker against unwarranted exploitation in order that agricultural and industrial labor needs might continue to be met over the long term.

Colonial legislative enactments were based on the Tudor Industrial Codes. The extent of their adoption can be seen from the following generally accepted notions prevalent in colonial America:

1. Compulsory labor or all able-bodied individuals falling into certain specific categories.

2. Those individuals not engaged in any occupation were compelled to work or were subject to criminal prosecution.

This attitude is even more forcefully described by Dorfman.

To the enlightened Englishman the mass of propertyless laborers was not an organic part of the commonwealth; though its labor, they declared, was the source of the material gain of the classes that did constitute the commonwealth. So if laborers are worked to the utmost and, even the barest subsistence, the wealth and power of the nation would be increased. Were their wages increased above subsistence, they would merely work less or spend their additional income in drink, to the further loss of the national productive power. Conversely, it was argued by some, high prices for foodstuffs are good, since they force the laborers to work harder. If more food be produced than expected and prices threaten to fall, wrote Sir William Petty, the surplus should be put in granaries instead of allowing it to be 'abused by the vile and brutish part of mankind to the prejudice of the commonwealth'. An increase of population is desirable; by lowering wages it spells competitive advantage in foreign trade. But if laborers could not be employed then their

1 Ibid., p.2.

2 Ibid., pp. 3-4
death "was nothing but an ease' to the commonwealth.\(^1\)

The colonies, however, were faced with a dilemma: they were constantly short of manpower, and wages were rather high, yet high wages served to encourage idleness. As a consequence, several policies were instituted to cope with the problem. To counteract idleness, early statutes punished the person without a calling by whipping or fine. Later, however, forced labor and the commitment of such individuals to the public workhouse were also utilized. The Tudor Acts, as they were applied to the colonies, recognized the loss of manpower involved in unnecessary labor turnover, and the colonial administrators also recognized the necessity for augmenting the labor supply wherever possible. To this end attempts were made to protect the workers' status and to minimize involuntary unemployment. Hence, curbs were placed on "irresponsible dismissals as leading to unemployment and imposing great burdens on the poor relief agencies."\(^2\)

In addition,

... colonial towns and villages or other licensing bodies customarily set the wages or fees of certain quasi-public functionaries, such as porters, carmen, draymen, millers, smiths, chimney-sweeps, gravediggers, pilots and others.\(^3\)

By placing ceilings on wages, however, the supply of labor could not be maintained or increased without coercive methods. Consequently,


\(^3\)Ibid., p. 20.
the bound-labor system was devised to attract workmen from Europe and to assure a cheap labor supply in the colonies. Various other methods were employed to counteract the scarcity of skilled workmen. In the first place, artificers in the early days of settlement were required to stick to their lasts. In several colonies acts were in effect which unquestionably outlawed strikes and effectively forestalled labor combinations.

Secondly, realizing that coercive measures themselves were not sufficient, inducements of another variety were utilized in an effort to encourage skilled workmen to settle in this country or to enter particular trades. Many colonies as well as local communities offered workmen exemption from taxation for a specified period of years, exemption from labor on roads and highways and from military training, land grants or leases, and other attractive subsidies and bounties.

In spite of all these measures, it was not a simple matter to keep the ranks of labor at a level sufficient to meet the demands of the colonial labor market.

In the main, the ultimate economic objective of colonial workman was security through agriculture rather than industry. As soon as a workman had accumulated a small amount of money he could, and in many cases did, take up a tract of land and settle on it as a farmer. This was the paradox of the high wage scale, for, as the author of American Husbandry pointed out, 'nothing but a high price will induce men to labour at all, and at the same time it presently puts a conclusion to it by so soon enabling them to take up a piece of waste land.'

The effects of all this on labor relations in the colonies offers a marked contrast to the situation in contemporary England. In the colonies

1Ibid., p. 30.
2Ibid., p. 33.
3Ibid., p. 48.
workmen, particularly skilled craftsmen, were held in high esteem. High
wages, relative independence, and the recognition of labor's importance in
the progress of the colonies tended to soften class distinctions.

Although labor policy involving skilled labor combined coercion with
special favors and privileges, the same standards were not applied to
apprentices and women and children. Even here conditions were not as
intolerable as they turned out to be with the advent of the factory system.

The employment of women and children was implicit in the
colonial labor program. Church and state both en­
couraged family industry as a patriotic obligation. During the Revolution women undertook many of the tasks
of men. Many bound servants, other than apprentices,
were minors, and an impressive proportion of all emigrants
to the colonies were children and young people. The
courts sought to safeguard their condition of employment,
but, save for restrictions on the term of apprenticeships,
there was no legislation comparable with the modern child
labor laws, which, in the case of Federal enactments, have
had to pursue a thorny constitutional path. As most in­
dustrial production in the colonial and Revolutionary
periods was still in the home, shop, or putting-out stage,
children in the main enjoyed working conditions which
were indisputably superior to those prevailing in the
early factories, where apprenticeship degenerated into a
method of exploiting cheap labor.

Although sweeping safeguards for the protection of women and children
were non-existent in the colonies, the courts did demand that employers
fulfill certain obligations toward their employees. This applied not only
to women and children but to other workers as well.

The master was liable for acts committed by his servant
in the execution of the master's authority or for his
benefit and without specific command. The colonial courts
do not seem to have offered the employer the three loop­
holes found in modern tort law. These are: (1) the

\[\text{Ibid.}, \text{p. 513}.\]
'fellow servant rule', whereby an employer escaped responsibility for all accidents in which an injury could be attributed to the negligence of another employee, (2) the doctrine of assumption of risk, whereby an injured employee who had known of the employer's negligence with respect to the hazard causing the injury, but who nevertheless voluntarily entered into or continued on his job, did so at his own risk, and (3) the doctrine of contributory negligence. It is doubtful whether servants in colonial times could have recovered damages from their masters for injuries occurring in the course of their employment where their fault or negligence could have been proven. On the other hand, masters were expected to provide medical assistance for bound servants who fell ill in the course of their employment. This was the closest approach in the colonial period to any concept now embodied in our Workmen's Compensation Acts.1

Summarizing the experiences of labor control by colonial governments, there was a definite recognition that business of a monopolistic character should be subject to regulation in the interest of the community at large. Given the scarcity of labor, controls were extended to include both skilled and unskilled working people. The nature of such regulation involved the establishment of maximum wage rates and minimum hours as well as the prices of necessary articles of consumption.

Although the strike weapon was not widely used, primarily because of the difficulties involved in the formation of labor combinations, there were other means available to workers to voice their protests. There were two major weapons available to labor: "incorrigible conduct or legal redress by petition to the courts."2 In the absence of adequate protective legislation or administrative machinery, these techniques were the only possible ways for disgruntled laborers to better their conditions of

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1 Ibid., p. 520.
2 Ibid., p. 522.
employment or to guarantee themselves a living wage.

Both employee and employer, however, were considered to have mutual obligations.

Throughout the length and breadth of the original states, workers were enjoined to obedience to their masters or overseers and strict observance of their contracts. The master had the right to chastise the disobedient servant as well as the slow or incompetent one, provided that the punishment was not excessive or unreasonable. Considering the fact that all servants and most workmen were excluded from juries by property qualifications and that the bench was exclusively recruited from the employer class, an extensive study of the complaints brought against masters for abusing this power indicates that the courts, especially in the Northern and Middle colonies, made serious efforts to curb employers who were cruel and abusive or callous to their workers' welfare.1

However, as long as the workers' welfare was dependent upon the humanitarian motives of a propertied governing class, his position was indeed precarious. In some of the Southern colonies, for example, masters were usually able to secure specific performance of the labor contract from the courts. This was true not only of the indentured servant but of the worker under contract as well. At the other extreme, although labor combinations having as their objective "better working conditions, higher wages, fees or prices for the manufactured product"2 were frowned upon, the maintenance of a monopoly of their trade or craft was even encouraged by the town authorities.

But these policies were not long lived. By the mid-eighteenth century a relaxation of controls was already evident. At the time of the

1Tbid., p. 523.
2Tbid., p. 524.
Revolutionary War, due to the manner in which the war was financed, namely, the overissuance of paper currency, the threat of inflation required drastic controls. To this end various state governments attempted to regulate both prices and wages. But in the absence of any real attempt to stem the currency crisis, the wage and price control programs were doomed to failure.

The reaction to the system of controls during the Revolutionary period and prior to it was the rise of a laissez-faire philosophy.

During the Revolutionary era a perceptible momentum toward labor combinations and concerted action by working-class groups was effectively diverted from economic into political channels. Masters and journeymen joined in protest against British imperial policy and supported the non-importation agreements, which proved a great boon to local industry and employment. When the war came they left the plow and the work-bench, at least for a time, and joined the armed forces. The really notable uprising against terms and conditions of service in the revolutionary period was the mutiny in the Pennsylvania Line. As a result, the foundations of permanent trade unionism were not really laid until the post-Revolutionary period.¹

To trace this development it is necessary to distinguish between two distinct influences. As a result of the success of the independence movement certain political forces were destined to shape future labor policy. On the other hand, the rapid economic development of the country determined the future role of labor in the economy.

Turning first to the political forces,

the strong dislike of the English crown and of the royal governors ... led to a reaction against executive authority in general that resulted in the practical supremacy of

¹Ibid., p. 525.
another of the three coordinate branches of government, namely the legislature.¹

With the establishment of the Constitution and a new government in power, particularly dominated by Federalist doctrines, the political framework in which policies were to be determined became quite apparent. This can be seen from the generally accepted dogma of Federalism. The lower House was to represent the various classes and interests in society. But since all groups within the economy could not possibly be represented, certain broad interests were to be included. These were recognized as consisting of three classes: the landed interests, the learned professions, and the merchants. The latter class naturally was to "represent the artisans and manufacturers, as their interests were considered to be to a great extent identical."² Because of the assumed harmony of interests between the merchant, manufacturing, and laboring groups and also the great fear of centralized authority, the constitutional basis of labor legislation became obvious. Although the federal constitution said nothing about labor,³ the first ten amendments made it unmistakably clear that labor problems were to be dealt with by the states. It was only later that considerable control was exerted through the indirect application of the commerce, war, taxing and maritime powers of the federal government.

²Ibid., p. 112.
But apart from the obstacles imposed by the division of powers between the states and the federal government, the chief hindrance imposed by the Constitution on labor legislation is found in the due process clauses of the Fifth and Fourteenth Amendments, which are frequently invoked to nullify legislation interfering with the liberty or property of employers or employees.¹

Secondly, the growing complexity of the production process brought with it changes in the relationship between employer and employee. On both sides the combination movement was already apparent at the time of the Constitutional Convention. There was

a clear-cut trend among master mechanics, journeymen, laborers, merchants and industrialists toward the formation of their own associations along economic lines ... Actually, employers' trade groups such as the Spermaceti Trust, local chambers of commerce, and the societies of master craftsmen preceded the craft union.²

Fortunately, however, the tremendous power of the young economy to expand minimized, to a large extent, the frictions between the two growing factions. Relatively full employment and extreme mobility of the factors of production were largely responsible for the lack of labor-management conflict. Even

the introduction, to a very limited extent, of power-driven machinery and labor-saving devices in the Revolutionary era did not seem to ... create ... a serious problem of labor displacement ... The continually expanding economy of the colonial and early national periods virtually nullified any displacement of workmen resulting from new technology or from increased operational efficiency.³

²Morris, R.B., op. cit., p. 536.
³Ibid., p. 526.
Before dealing with the labor problem as it developed in the post-Revolutionary period it is necessary to trace the changes that were occurring in the nature of the economy. Although the period under consideration was essentially agrarian, the non-agricultural sector of the economy began to show manifestations which clearly marked the future nature of the production and distribution processes. Although it was too early to predict the final domination of industry over agriculture, the organic composition of non-agricultural pursuits was clearly undergoing a marked transformation. Only in the 1850's, with the advent of a technological revolution in transportation, did the outcome of the battle become evident.

However, as the productive process developed the relationship of employer to employee underwent a series of changes, no less revolutionary than the technological changes responsible for it. Bogart offers a succinct description of these interrelated developments.

During the colonial period many articles were produced in the home, and in these household industries there was no possibility of price or wage struggles, for the producers and consumers were identical. Even the itinerant worker, working up the raw material belonging to his customer in the home of the latter, was at little disadvantage, since labor was still so scarce that his wages remained high. When population became denser, the handicraftsman set up his own shop, where he worked up his own material on order from his customers, who were his neighbors. ... In this custom-order stage of industry the three functions of merchant, master, and journeyman were united in the same person, and the only things which threatened his returns were the poor quality of his own work or the competition of other handicraftsmen.

The next stage came when the master workman began to employ journeymen, and also to make goods in advance of orders for sale in his shop to transient visitors, in
addition to custom-made articles. The journeyman now occupied a less stable position, for he no longer owned the raw materials in the shop, although he still retained his hand tools. Owing, however, to the restricted area of the market the relations between master and journeyman remained harmonious; they worked side by side and were not sharply differentiated either by earnings or social position. Conflicts over wages or hours were consequently infrequent. This retail shop stage prevailed in the shoe industry in Philadelphia in 1789.

The next step was revolutionary for the worker. Improvements in transportation began to widen the market, and some of the more wealthy and enterprising merchants sought orders in the newly developing markets of the West and South. In these distant markets the merchants sought orders for goods to be made and delivered later. But here the competition from other centers of manufacture, also seeking orders, forced the merchant, now become wholesaler, to offer his goods at as low a price as possible. The attempt of employers in this wholesale-order stage to reduce wages so that they could meet distant competition was the beginning of the conflict between labor and capital. But this severer competition also led to efforts to lower costs of production by the use of machinery, which was eagerly sought from England, by better technical education of apprentices, and by tariff protection against importation of foreign goods.

With the widening of markets and sale to distant customers it next became necessary to extend long-time credit and this required capital. New banking facilities came into being and a new credit system which favored the larger producer. Under these conditions there developed a new type of merchant-capitalist or merchant-manufacturer, who took over the wholesale business now made possible by the wider markets, with the recently added warehouse and commission business. The former master became a small contractor, employing one to a dozen journeymen, and sold his product to the wholesaler instead of to his customers. The older 'bespoke' and shop work gave place to production on order, and the price now determined by competition rather than by custom. Wages also became competitive and a distinct wage-earning class appeared which did not own its tools. The journeyman consequently became a wage worker and found himself exposed to new forces of competition which threatened his wages and standard of living: contract prison labor, sweatshops, homework and the pressure of other localities all tended
to force down the rate of wages. Against these conditions labor first began to combine and since the skilled mechanics were first to feel the pressure, it was natural that they should be the first to organize the early trade unions.1

Although the first continuous organization of labor in the United States was that of the shoemakers, organized in 1792 in Philadelphia, and the printers, tailors, carpenters, and sailors organized sporadically, the labor movement essentially was dormant up to 1820.

As the industrial revolution proceeded during the period 1820 to 1840 early signs of a labor movement began to appear. Commons refers to this era as the "awakening period" of the American labor movement. It is here that we find, for example, the establishment of the Mechanics' Union of Trade Associations organized in 1827 in Philadelphia. Also the first "nationwide" union was organized in 1834 under the name: National Trades' Union.

There are some rather interesting conclusions to be drawn from these beginnings.

The early labor movement in the United States did not spring from factory conditions, as it did in England where the separation of employer from employee was clearcut. In America the factory system at that time was almost entirely outside the labor movement, since the factories were confined to the cotton industry and most of the early factory workers were women and children or immigrants who were unorganized. It arose rather as a protest against the merchant-capitalist system, which was reducing the master and the journeyman to a common level of wage dependency. The movement was given a political turn by the extension of manhood suffrage in the late twenties through the abolition of property qualifications for voting and holding office, which placed a new and untried

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weapon in the hands of the unpropertied workers. As yet little had been done to protect the rights of labor by legislation; without political rights labor had been unable to exert any influence upon lawmakers.\(^1\)

Labor's attempt to influence legislation, however, was not based entirely on economic need. Schlesinger, in describing the attempts on the part of the more enlightened citizens of the period to correct the existing inequalities, points to the efforts of such men as Mathew Carey. In the writings of Carey one finds the prevailing opinion of the laboring classes held by the "possessing classes". These "erroneous opinions" about the poor were:

1. That every man, woman and grown child able and willing to work may find employment.

2. That the poor, by industry, prudence, and economy, may at all times support themselves comfortably, without depending on eleemosynary aid — and, as a corollary from these positions:

3. That their sufferings and distress chiefly, if not wholly, arise from their idleness, their dissipation, and their extravagances.

4. That taxes for the support of the poor, and aid afforded them by charitable individuals, or benevolent societies are pernicious, as by encouraging the poor to depend on them, they foster their idleness and unprovidence, and thus produce, or at least increase, the poverty and distress they are intended to relieve.\(^2\)

In order to improve their position, by counteracting the attitudes and mores of the day, the aggressive elements in the young labor movement attempted to combat the assault on the dignity of labor. A program based on

\(^1\)Ibid., p. 431.

a series of special demands, intended to improve labor morale rather than its economic position was instituted. These made regular appearances, with slight variations, on the mastheads of nearly all the workingmen's papers:

- Equal Universal Education
- Abolition of Imprisonment for Debt
- Abolition of all Licensed Monopolies
- An entire Revision, or Abolition of the Present Militia System
- A Less Expensive Law System
- Equal Taxation on Property
- An Effective Lien Law for Laborers
- All Officers to be Elected by the People
- No Legislation on Religion

Bogart points out, however, that this political movement came to an end by 1832, and the emphasis was placed on economic and industrial goals. The depression of that year all but wiped out the existing labor organizations.

**Labor in a growing industrial economy**

The year 1840 is usually employed as a benchmark to conveniently note the successful establishment of the industrial system in the American economy. It designates the ultimate victory of the industrial revolution and the entrenchment of the factory system. The impact of this revolution on labor policy was already noticeable in the legislative enactments of the most industrially advanced state of the period, namely, Massachusetts. Although the earliest American labor laws enacted were the mechanics' lien and wage exemption laws of the 1830's and 1840's, they did not cope with problems arising directly out of the factory system. As noted earlier, the

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1Ibid., p. 134.

factory system utilized women and children primarily.

During the thirties there was a steady migration of farmers' daughters to the rapidly growing factory towns of Lowell, Lawrence, Manchester and other industrial centers. In the cotton mills of New England and the middle states almost sixty percent of the employees in 1831 were women. In New England in 1860 about a third of all factory workers were women, though in the country as a whole the proportion was about one-fifth. Children were more largely used in the factories organized on the Fall River type, with the usual abuses of long hours, low pay, lack of education, and overwork. Some early mills recruited child labor from almshouses, but this was never so generally done as in England partly because there were so few dependent poor in America.1

The first legislative enactments that were truly designed to remedy evils growing directly out of the factory system were:2 the enactment of a statute in Massachusetts in 1836 providing schooling for employed children; the Massachusetts law of 1842 providing for a ten-hour law for children under twelve years of age; and the New Hampshire law of 1847 limiting the working day in factories to ten hours for children under fifteen.3 These beginnings at the state level and the growing clamor for more extensive legislation, augmented by the demands among mechanics during the thirties for a ten-hour day, led to some notable achievements. Most noteworthy of these was President Van Buren's executive order in 1840, establishing a ten-hour system for Government employees. It was hoped by the advocates of such action that the individual states would follow the lead of the Federal government. There were no legal bars preventing the states from taking such action.

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1Tbid., p. 439.
The corporations had been created by the legislatures; their existence depended upon legislative action; without their charters they would cease to exist; and it seemed evident to the public and to the workers that these corporations could be required by the legislatures that had created them to close their establishments after ten hours of operation per day. The right thus to regulate the corporation was nowhere disputed. The only question that arose was as to the desirability of so doing, in the interests of the trade, the operatives, the corporations, or the community.

The relative inactivity of the Federal government in the enactment of legislation safeguarding labor stems not only from the limitations imposed by the Constitution. The laissez-faire theory was generally accepted by most of the chief executives of the United States during the second quarter of the nineteenth century. Although President Van Buren issued his famous executive order of 1840, his message to Congress in 1837 confirms this point of view. In spite of the problems created by the financial crisis of that year he said:

All communities are apt to look to Government for too much. Even in our own country, where its powers and duties are so strictly limited, we are prone to do so, especially at periods of sudden embarrassment and distress. But this ought not to be ... the less government interferes with private pursuits the better for the general prosperity. It is not its legitimate object to make men rich or to repair by direct grants of money or legislation in favor of particular pursuits losses not incurred in the public service ... But its real duty — that duty the performance of which makes a good government the most precious of human blessings — is to enact and enforce a system of general laws commensurate with, but not exceeding the objects of its establishment, and to leave every citizen and every interest to reap under its benign protection the rewards of virtue, industry and prudence.

1Ware, Norman, The Industrial Worker, 1840-1860, The Riverside Press Cambridge, 1924, p. 126.

Apparently this attitude on the part of our Chief Executives was not a short lived one. Indeed, it was persistent throughout this period. Almost twenty years later another American president affirmed this policy during another of our recurring crises. During the depression of 1857-58 President Buchanan was faced with the problem of answering his critics.

A question which inevitably arose in the course of the crisis was what the Federal Government might do to relieve it. In his message to Congress both in 1857 and 1853, President Buchanan gave the official answer that government can do but little to alleviate depression, since it could have done nothing to avert the crisis. No useful public works were to be stopped, but economy was necessary in order to keep government borrowing at a minimum.¹

Obviously, labor policy, at least from a legislative standpoint, is not to be found at the Federal level in this period. But this is not to say that the labor problems arising were not dealt with at all. On the contrary, the courts were very active establishing precedents, which were later to become the targets of reformers. The Philadelphia Cordwainers case, 1806, set the stage for many later judicial opinions. The key to the practical importance of this case was the use of common-law doctrine of criminal conspiracy. In the eyes of the court the combination of workmen, by forcing higher wages, were causing production costs to rise, and since competition in reality set the price of shoes, the producers would be unable to market their product in competition with other producers.² "Hence they, the workers, were


threatening with injury the welfare of the entire community." The influence of this decision can be seen quite readily.

Within the next thirty years there followed a series of similar cases throughout the East, reflecting these sentiments. In some of them courts conceded the right to strike for higher wages but condemned strikes to compel the discharge of workmen who would not join the unions as arbitrary means 'which went to deprive their fellow citizens of rights as precious as any they contended for.'

In the case of Commonwealth v. Hunt, 4 Wetcalf, 111 (Mass. 1842), the decision rendered in 1842 gave the doctrine of criminal conspiracy a considerable setback.

And, as Dean Landis of Harvard Law School ... has remarked about Shaw's opinion ... 'the foreshadows clearly the doctrine of a later day that the legality of a strike is to be made to depend upon the end sought to be attained.'

In summing up the major contributions of judicial interpretation to labor policy in this period Mason groups them under three heads:

First, all combinations to raise wages were held indictable as conspiracies at common law; the mere fact of conspiring for the purpose of increasing wages was the gist of the offense, therefore, there need be no inquiry as to motives. Secondly, it was contended that when men combine, the means which they exercise become a matter of importance; if the means employed are coercive, and infringe on the rights of others to pursue their own trade or calling, they are in restraint of trade and as such render the combination an indictable or actionable conspiracy.

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2 Ibid.
3 Ibid., p. 29.
Finally, perhaps the most fundamental theory advanced was that, when men unite, their objects or motives become important. If their first object in combining is to benefit themselves, to enhance their wages, reduce their hours, and so forth, the association is not only lawful but praise-worthy; if, on the other hand, the first purpose of the combination is to injure the employer, or other parties who have no concern in the dispute, the agreement is a conspiracy.\(^1\)

Any discussion of labor policy would not be complete without mentioning the "safety-valve doctrine" and its place in the general setting. In terms of policy it is quite apparent that the supporters of labor were impressed with the doctrine. As Schlesinger has pointed out:

The Jacksonians thus regarded the keeping open of the public domain as a democratic imperative. It was not for them a sectional question alone. The poorer people of the west demanded easy access and cheap lands for their own direct benefit. The poorer people of the East similarly required a liberal land policy, to provide for some a refuge, and to relieve the pressure on the great majority by draining off rural population which might otherwise flock to town and swell the labor surplus.\(^2\)

This recognition of the "safety-valve doctrine"\(^3\) by both Jackson and Van Buren can be seen in their annual messages in which they appealed to Congress for a liberalized land policy. Whether the frontier did affect the evolution of the labor movement in the United States, as Commons and others have suggested, is still an unsettled question. However, even the critics

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of the doctrine admit that: "A portion of the agricultural population did make a choice between eastern industry and western farm-making and to the degree that it elected the latter some effect upon wage rates may have followed."¹ Certainly, the increased volume of foreign immigration nullified any effects that the availability of free land may have had on eastern labor markets. There is also the possibility that trade union growth may have been inhibited by these policies. With increased labor mobility and the difficulties of communication among immigrant groups, one would hardly expect union organizations to flourish.

In summary, there were several important forces at work changing the labor scene and hence leading to a labor movement "pure and simple", as Professor Commons describes it. Out of the welter of reforms and experiments, including the humanitarian movement of the forties, Fourierism, and the political protests of the "workers" in Jackson's time, a bona fide trade union movement begins to emerge, dating from about 1853. More specifically, however, the forces underlying these changes include

the development of the factory system, the greater use of machinery, the still further widening of the market through improvements in means of transportation, the formation of corporations, the coming of the immigrants in large numbers, and other factors ...²

Although the labor scene continued to grow more complex as industry

²Dobart, E.L., op. cit., p. 443.
developed, the relative importance of agriculture continued to hide the rumblings going on in the industrial sector of the economy. In addition, labor's supporters, those responsible for pointing up the unsatisfactory conditions under which American labor was employed, turned to a relatively more important issue, namely slavery. Consequently, the clamor for labor reform became submerged in the much greater conflict shaping up between the proponents and opponents of the slavery issue. In a sense this was unfortunate, for it permitted labor to work out its own salvation without the benefit of publicity and constructive criticism. As a result the skilled trades settled down to the practical task of getting more pay for themselves by means of permanent and exclusive organizations. A new type of union was established, which steered clear of all programs of social and political reform and confined its activities to improving conditions in the trade. 'Its main weapon was the strike; its aim, to establish a minimum wage for the trade and to maintain it by means of a closed shop.'

Although the panic of 1857 stifled these attempts at organization, the groundwork was laid for the trade union movement which followed a generation later.

The Civil War called a halt to labor's drive for improved working conditions. In fact, the slavery question occupied the attention of many labor leaders, overshadowing other issues that might have come to the fore had not the threat of negro competition in the labor market become a real possibility. One writer, in describing the attitude of labor toward the slavery issue, stated:

The workingmen of the antebellum period were not fond of Negro slavery; indeed they possessed a deep hatred for the institution. But there is little evidence to reveal

1Bogart, E.L. op. cit., pp. 444-45.
that they fought wholeheartedly against the continued bondage of the black man. They were suspicious of abolitionist motives, resentful of abolitionist indifference to wage slavery, critical of the methods used, and of the potential benefits to be derived by the potential 'freedom.' They were deeply conscious of the competition the white laborer would have to face if the Negroes were emancipated, and much more interested in alleviating their own weary and burdensome lot than in obtaining the freedom of the bondsmen. Perhaps the attitude of the workingmen was a selfish one but, be that as it may, there is little evidence to uphold the thesis that the antislavery movement had great strength 'in the factories and shoe-shops'.

The period 1850 to 1872 is unique in American labor history because it represents a transformation in our economic, social, and political stature. In the early 1850's we find the national unions of skilled workers emerging. As markets broadened, the rapid extension of railroad mileage and the opening up of trunk lines not only sharpened the conflict between worker and employer, but conflict also arose between worker and worker. Labor in one geographical area faced the competition of labor in another geographical area. In order to organize the craft throughout the whole competitive area, we find national unionism arising among machinists, stonecutters, molders, blacksmiths, printers, and hat finishers. Although the panic of 1857 resulted in a weakening of this movement, and the early years of the Civil War disorganized labor unions further, this was only a temporary setback. Advances in technology, trade and transportation had already established a pattern which inevitably led to a further aggravation of the labor problem. Not only were national

unions being formed, but local unionism continued to expand. This growth of local organization during the 1860's is illustrated by the union directories covering twenty states. Seventy-eight local unions were listed at the end of 1863. By the end of the following year 270 were listed and in 1865 approximately three hundred locals were in existence.

From 1863 through 1865 as many as twelve new nationals were formed, including such important unions as the locomotive engineers, the bricklayers, masons, and plasterers; and the cigar makers. 1

In terms of labor policy, during the Civil War the federal government resorted to programs designed to alleviate the manpower shortage growing out of the use of conscription and the increased requirements of a war economy. To this end Congress in 1864 "passed an act allowing contracts to be made in foreign countries in which immigrants pledged their wages or any other property they might acquire to pay for transportation." 2 Apparently the attempt to augment the domestic labor supply through increased immigration was quite successful. "An advertisement declared that arrangements were so complete that any kind of labor could now be obtained in any numbers and at reasonable cost." 3

Obviously, the labor controls utilized by the federal government were limited by the accepted distinction between the rights of the states as opposed to those of the federal government. This distinction, however,

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2Dorson, J., _op. cit._, p. 966.
3Ibid., p. 967.
was to be clarified some ten years later by the Supreme Court in the
Granger cases.

Although it is not the purpose of this discussion to point out the
detailed changes that were occurring in the labor movement, it is
necessary to summarize the more important of these as they affect the
status of the federal government's role in the development of labor
policy. Ware has described the evolution of national trade unionism
during the Civil War in the following fashion:

At the outbreak of the Civil War and for four years
thereafter the few national unions were in a sad way.
They were national in name only, without funds, and
lacking control over their constituent locals. The
Typographical had survived from 1850 largely because
of its benefit features. The Stone Cutters had
maintained some sort of organization from 1853 and the
Hat Finishers from 1854. The Holders and the Machinists,
both organized in 1859, hardly maintained themselves
through the Civil War. The president of the Machinists
did not bother to attend the 1861 convention because he
did not expect any delegates to appear. The Holders'
national organization seems to have disappeared in 1862
and its leader, Sylvis, lost faith in trade unionism
and turned to cooperation and politics. The revival
of the national unions came in 1861, was halted by
the depression of 1867, and reached its height in 1873,
the year of the panic.

The period 1864-65 finds the labor movement pressing, at the state
level, through the concerted activities of the Workingmen's Assemblies,
for an eight-hour day. With the creation of the National Labor Union,
a politico-reform body, in 1866, labor's demands were essentially a
revival of the reform planks popular in the forties and fifties; shorter

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1Ware, N.J., The Labor Movement in the United States, 1860-1895,
hours; disposal of public lands; the national debt issue; cooperation and prison labor. However, "in spite of the fact that 1866 marked the peak of postwar industrial activity, the national unions were insignificant factors in the general labor movement." In 1870, at the National Labor Union Convention, an important question of labor policy arose which had repercussions later in our history. As a result of the Burlingame Treaty of 1869, which gave China most-favored-nation treatment, the problem of competing with cheap foreign labor arose. However, the power of labor was not adequate to influence federal trade policy.

By 1870 the National Labor Union declined in importance to be replaced by a series of Industrial Congresses which included delegates from the five national unions, the Sons of Vulcan and the Knights of St. Crispin. Attempts were made to consolidate the various labor organizations then in existence. In addition, the Congress of 1874 included two new labor societies exhibiting a new trend. They were organized as secret societies and were named the Industrial Brotherhood and the Sovereigns of Industry. The divergent aims and objectives of the various delegates, however, made unification impossible.

The importance of this period may be summarized by pointing out that these various organizations did have one thing in common which minimized the necessity for any positive program on the part of government to deal with labor disputes. Although there were strikes in various industries they were usually ineffective. Labor organizations, for the most part, took

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1Ibid., see footnote p. 9.
the same position on the strike issue.

It was in fact, almost a truism of the period that strikes were dangerous and ineffective, did more harm than good, and should be supplanted by peaceful and intelligent methods for the settlement of industrial disputes. ¹

As a substitute for strikes, labor advocated peaceful settlement of disputes primarily through collective bargaining procedures.

While these efforts were going on, the effects of the Civil War on the garment industry in Philadelphia seemed to portend much greater progress in the establishment of a unified labor organization. By 1869 the Garment Cutters' Association of Philadelphia had transformed itself into the first bona fide national trade and labor society in American labor history — the Knights of Labor.

The new organization was modeled after the secret fraternal orders of the day. Although its influence did not expand quickly, it gradually extended its power to include the coal and iron workers, stone cutters, gold beaters, machinists, boilermakers, blacksmiths and many others. Difficulties arose, however, as a result of the secrecy employed by the new order. In the coal fields secrecy meant theft and murder, and as a result of the crimes committed by the Molly Maguires and the hanging of several members of this inside ring which controlled the Ancient Order of Hibernians, secrecy was discredited. But the leaders of the organization were not yet ready to dispense with the enigmatic character of the order. They had reason to fear any disclosure of the strength and character of the organization.

¹Ibid., p. 19.
The great upheaval of 1877 not only illustrates the conflicts arising out of the insecurity of the worker, but also sets the stage for federal intervention in labor disputes. The railroad strikes in Pittsburgh revealed the extreme nature of industrial conflict. They could hardly be considered strikes, but were rather revolts on the part of an entire community against the Pennsylvania railroad. Ware describes the incident in the following manner:

The effect of the riots of 1877 was enormous. For the first time in America the head of labor revolution was raised. Until then, the labor movement had been ignored except by those in immediate contact with it. A few intellectuals had talked about it in sentimental terms. Its hopeless struggle against forces it could not understand, its unhappy experiments with self-employment, its pathetic ventures into politics, its petty bargaining, had gained the sympathy of preachers and editors like Channing and Greeley, but a hardened community could well afford to treat it with contempt. The Great Upheaval revealed a great discontent, and what was more significant, a great, if unwieldy, power. Civil authority had been brushed aside. The militia were toy soldiers at the mercy of destructive mobs. Only the regulars could deal with them, and the United States was coming to a pretty pass when Federal troops had to rush into every village to maintain law and order.

So the lid was clamped down. The courts began to see a riot in every strike, and a Molly Maguire in every trade unionist. The doctrine of conspiracy was revived and in Pennsylvania and elsewhere strengthened by statute law. Labor became an outlaw, the wage-earner a member of a subcommunity or class, separate and distinct from the general community to which he had, at least in theory, always belonged. Credence was given in fact to the 'un-American' theory of class war.¹

It seems quite obvious that inactivity on the part of government at each level was responsible for the violence occurring in the settlement

¹Ibid., pp. 18–49.
of labor disputes. In spite of the eight-hour law for federal employees passed in 1868, and the passage of factory inspection acts by such states as Massachusetts in 1867, it was not until the 1880's that a considerable volume of legislation was enacted. In fact, even when legislation was passed, the spirit of the law was frequently violated. A case in point is the eight-hour legislation of 1868.

The question of whether the new eight-hour day should be accompanied by a corresponding reduction in wages remained unsettled, and the law was subject to such varied interpretations that it did not secure an eight-hour day for all the employees who were supposed to be covered by it. In 1872, however, President Grant prohibited by proclamation any wage decreases which might be put into effect in carrying out the law, and in the same year Congress made provision for back pay to those workers whose wages had suffered a reduction because of it. Hours laws of a more general nature were also enacted, but merely defining a legal day's work, they permitted working days longer than those specified in the statute if the wage contract provided for more hours, and lacked adequate enforcement machinery.¹

It seems quite understandable that labor resorted to violence in this period in an effort to achieve specific goals. Government apparently was indifferent toward the efforts of the workingman to improve his status. And even when it did intervene only token efforts were made to enforce policy decisions.

Returning, however, to the effects of the Pennsylvania affair on labor policy throughout the country, repercussions were felt as far away as the Mid-West. In a Nebraska case of 1879 in which eighteen

tailors on strike were convicted of unlawful conspiracy, the court was
guided by the element of intent. The workers were judged guilty of
conspiring jointly to injure the employer.¹

During the 1870's and 80's, the Congress of the United States author­
ized investigations in the field of labor relations in order to determine
the causes of labor disputes and recommend adequate legislation to cope
with the problem. Several considerations made such inquiries necessary.
With the growth of the Knights of Labor the conflict sharpened. New tech­
niques of industrial warfare were being developed on both sides. On the
side of the employer, for example, with the favoritism of the courts becom­
ing more and more obvious, the "yellow-dog contract" was first utilized.
Following a strike in 1870 the Western Union Telegraph Company compelled
its operators to sign oaths not to affiliate with any union. Employers
in many industries followed suit, "including the railroads, meat pack­
ing, and iron works."²

In order to deal adequately with the growing complexity of the labor
problem, Congress enacted legislation in 1884, creating a Bureau of Labor
to be incorporated in the Department of Interior.³ But the events of the
period moved swiftly. Already a new type of labor organization appeared

¹Tapstrick v. Range, 9 Neb., 390, discussed in Mason, A.T., op. cit.,
p. 80.

New York, 1938, p. 137.

and Bros., New York, 1940, p. 3.
on the horizon — one which was later to become the most powerful labor organization in America — the American Federation of Labor. It offered many attractions to workers: membership consisting of skilled craftsmen, "business unionism," decentralized organization, and political detachment. Starting with an enrollment of about 50,000 members in 1881, its membership more than doubled by 1884, and continued to grow rapidly.\(^1\)

With the strength of organized labor mounting and further violence occurring, illustrated by the Haymarket Massacre of 1886, the employer found it expedient to call on the courts for further assistance. Since the conspiracy doctrine was gradually losing its effectiveness as a weapon to prevent labor combinations, employers found comfort in a new weapon, first used successfully in 1877 — the injunction. "For half a century the injunction was used more extensively and more effectively than conspiracy suits."\(^2\) But labor was not caught napping. It quickly realized the dangers inherent in both the "yellow dog contract" and the injunction. As early as 1887 labor successfully challenged the use of contracts requiring workers not to join unions and convinced the New York legislature that such contracts should be declared illegal. However, modifications in the use of the injunction had to wait for more recent legislation.

To further protect themselves, labor unions made additional demands to counteract the "union busting" campaigns of employers. Immigrant

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\(^1\)Taylor, A.G., *op. cit.*, p. 66.

\(^2\)Ibid., p. 171.
labor was frequently used to forestall unionization and consequently the labor movement pressed for a revision of the law permitting immigrant labor to be contracted for on the Continent. Congress responded by passing the Alien Contract Labor Law of 1835 prohibiting the importation of contract laborers. Moreover, labor pressure succeeded in excluding orientals in 1882, while as a preliminary safeguard the union-label idea was used for the first time in 1875 to differentiate the product of white cigar makers on the Pacific coast.

The period of government intervention

Prior to 1888 much of the legislation dealing with labor concerned itself with general welfare propositions. It was essentially humanitarian in character. Court decisions were used as the basis for settling industrial disputes. And in most cases the "property right" of the entrepreneur seemed to be behind all legal decisions. Eventually, however, the demand for equal rights on the part of all groups in society caused a modification of the inviolability of the rights of any particular group.

To use Professor Commons' terminology, where one party has a 'right', all others have a 'no-right'. If employers have a right to freedom of access to the consumers' market, employees must necessarily have a 'no-right' to interfere with that 'right'. If an individual worker has a 'right' to freedom of access to the employment market, his organized fellow-workers must necessarily have a 'no-right' to interfere with his 'right'. If employees have a 'right' to bargain collectively, employers must necessarily have a 'no-right' to interfere with such bargaining. But this 'right' of the employees may well conflict, if it is to mean anything, with some already recognized 'rights' of employers.1

In order to reconcile these claims and counterclaims of "rights", legislation at the close of the 1880's attempted to establish criteria for evaluating these rights and also to determine the obligations of both labor and management. The Arbitration Act of 1888 was essentially the first step taken by the Federal government to impose obligations on the part of labor and management in the settlement of railway disputes. Two methods of adjusting disputes between railway companies and their employees were established: (1) voluntary arbitration, (2) compulsory investigation. Although the act's provisions were never utilized, the general outline of governmental policy was clarified. The intent of the law obviously was to limit the rights of the disputing parties and there was a clearcut indication that in the future the "rights" of the community at large were to be considered. This latter concept was forcibly illustrated two years later in the passage of the Sherman Anti-Trust Act not only intended to deal with business combinations, but with labor combinations as well. Although the bill as originally framed and the ensuing statements made by Senator Sherman indicate that the act might easily be construed so that labor combinations would come under the act, the final draft as it emerged from the Judiciary Committee was so worded that the courts could later apply common law principles to each specific case coming under the jurisdiction of the act.\(^1\) Mason concludes by pointing out that,

\(^1\)The language of the bill as introduced by Senator Sherman on December 11, 1889 went as follows:

All arrangements, contracts, agreements, trusts or combinations between two or more citizens or corporations, or both ... made with a view or which tend to prevent full and free competition (continued)
on the basis of the evidence disclosed in the Senatorial investigations, it is doubtless true that when the members of the Senate judiciary committee wrote into the first section of the bill the language which appears in the Sherman Act today, they did so after deliberation and with full consciousness that they were employing words broad enough to embrace combinations of both capital and labor. The specific question as to whether its provisions would or should actually be invoked against labor, Congress did not answer, but chose rather to

in the importation, transportation, or sale of articles imported into the United States ... and all arrangements, contracts, agreements, trusts or combinations between persons or corporations designed or which tend to advance the cost to the consumer of any articles are hereby declared to be against public policy, unlawful and void.

After some debate on the floor of the Senate, where the possibilities of applying the act to labor were discussed, Senator Sherman added the following amendment, which was incorporated in the original bill:

That this act shall not be construed to apply to any arrangements, agreements, or combinations between laborers made with the view of lessening the number of hours of labor or increasing their wages; nor to any arrangements, agreements or combinations among persons engaged in horticulture or agriculture made with the view of enhancing the price of agricultural or horticultural products.

No sooner was the proviso embodied in the bill when Senator Edmunds, chairman of the Judiciary Committee, attacked it as discriminatory legislation.

When the bill was finally reported out of committee it had been completely revised and it was enacted in the following form:

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal.

leave that to be determined by the courts in 'each particular case as it might arise.'

Mason goes on to point out that the Sherman Act was merely a "restatement of the common law, regarding combinations of both capital and labor, and such legislation by Congress was necessary, because there is no common law of the United States."

Whether the foregoing analysis is correct or not, one fact is clear; the Act was interpreted by the courts and was applied to specific labor cases. From that standpoint, the court interpretations constitute policy decisions which apparently were accepted up to the passage of the Clayton Act in 1914.

In the year 1893 two decisions were handed down involving the applicability of the Sherman Act to labor disputes. The decisions, however, were inconclusive. In United States v. The Workingmen's Amalgamated Council of New Orleans, 54 Fed. 944 (E.D. La., 1893), the court held "that the Sherman Act was deliberately framed to include labor organizations, whose forces were diverted into unlawful channels", while in United States v. Patterson, 55 Fed. 605 (D. Mass., 1893), the court maintained with equal assurance that there was no reason to believe that Congress intended to make the activities of labor unions amenable to the provisions of the act, without clear language to that effect.

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1Tbid., pp. 130-131.
2Tbid., p. 141.
3Tbid., p. 146.
4Tbid.
In the Debs case, 158 U.S. 564 (1895), growing out of the Pullman Strike of 1894, the issue of the applicability of the Sherman Act was superseded by a much more powerful argument resting on firmer legal foundations. Although the question raised by the Sherman Act was not answered directly, its importance became primarily academic when the decision of the Supreme Court provided the "commercer power" of the Federal government as a more formidable weapon in the solution of labor conflict. In one sense, President Cleveland's use of federal troops, to enforce the injunction issued by the courts against the American Railway Union, was itself a policy decision, but more important, however, is the spur the case gave to the use of injunctions in settling labor disputes.

Summing up the importance of the Debs case, Mason lists the following reasons:

First of all, it removed the main points of doubt to which the labor injunction had hitherto been exposed and placed the use of injunctions in labor disputes upon a firm legal basis. More than that, in sanctioning an injunction, unparalleled in scope, to end the strike, and in confirming an extraordinary — not to say novel — extension of equity jurisdiction, this case became a precedent of serious import to labor. Here was demonstrated for the first time the remarkable efficiency with which the injunction can be invoked in labor cases. Nor was the assertion of the court's power found wanting in all the essentials of an effective sanction. Violations of the Court's decree there may be, but the Debs case brought to light a common-law doctrine that has scarcely yet spent its force, namely, that it is an inherent power of the court, as a concomitant of its authority to issue a restraining order, to punish all violations of the order as for contempt. 1

President Cleveland, in appointing a committee to investigate the Pullman strike, apparently realized that something more constructive than mere

1 Ibid., pp. 154-155.
punishment was necessary to prevent labor strife. As a result of the committee's work the Erdman Act was passed in 1898 superseding the Arbitration Act of 1888, which was wholly inoperative anyway. The Act provided again for mediation and arbitration, but was applied only once prior to 1906. In Adair v. United States, 208 U.S. 161 (1908), the foundations of the Erdman Act were being chipped away by the courts. In this case

that part of the Erdman Act ... referring to interstate railroads, which made it a crime for an employer to discharge an employee for belonging to a labor union, was declared unconstitutional by the Supreme Court as being a regulation of commerce and in violation of the Fifth Amendment.¹

The decisive blow came in the same year (1908) when the issue raised by the Sherman Act was unequivocally settled by the Supreme Court in Loewe v. Lawlor, 208 U.S. 274 (1908). The court held that the union was liable under the act and enforced the treble damages section of the Act with respect to the union. "The court placed itself squarely on record as favoring the view that Congress must have intended that labor unions be brought within the purview of the Anti-Trust Act or else language broad enough to do that very thing would not have been used."² Labor's reaction was at once definitive. They set to work immediately to establish a more favorable governmental policy toward the workingmen — their slogan was: "The Sherman

¹Rosenfarb, J., op. cit., pp. 4-5.
Law — amend it or end it."

Shortly after the Danbury decision the freedom of trade unions was
again attacked in *Gompers v. Duck Stove and Range Co.*, 221 U.S. 418 (1911).

The chief significance of this case lies in the fact that
it impressively illustrates the tremendous effect which the
document of conspiracy, as employed in the Sherman Act,
exerts upon the activities of organized labor. More specifi-
cally it drives home ... this one fact ..., that any boycott
which affects interstate trade is condemned under the Sherman
Act as a conspiracy in restraint of trade, and the fact that
a boycott is a conspiracy renders all acts performed in pur-
suance of it, however laudable or innocent they may be in
themselves, unlawful and indictable.¹

After the United Hatters were forced to pay nearly a quarter of a million
dollars in damages to the Loewe Company, and Gompers, as well as other union
leaders, were threatened with prison sentences in the *Duck Stove* case, labor
made a determined effort to safeguard its "rights". With persistent agitation
as their major weapon they were able to secure the passage in 1914 of the
Clayton Antitrust Act. Paradoxically, labor legislation in the railroad in-
dustry, took a more positive tack with the passage of the *Newlands Act* of
1913. While the Clayton Act apparently exempted labor unions from being
prosecuted under the Sherman Act, the *Newlands Act* was more detailed in its
recognition of existing procedures in the settlement of labor disputes.

A permanent board of mediation and conciliation to settle
labor disputes in the railroad industry was established... and gave the board the power to render opinions on the
meaning and application of agreements which had been arrived
at by the process of mediation. Arbitration was also provided
for in this act ...²

¹Ibid., p. 167.
²Rosenfarb, J., *op. cit.*, p. 11.
In comparison, the passage of the Clayton Act ostensibly placed labor organizations outside the pale of combinations in restraint of trade. However, no real program was established to deal with labor disputes. New rights were merely conferred on labor, but unfortunately there were other "rights" in existence which conflicted with those given labor. Hence it is not surprising that the Clayton Act went the way of its predecessor — it too was reinterpreted by the courts. Modifications of the Clayton Act grew out of decisions rendered in *Duplex Printing Press Co. v. Deering*, 251 U.S. 443 (1921) and *Coronado Coal Co. v. United Mine Workers of America*, 268 U.S. 295 (1925). These will be taken up in detail later.

It would not be correct to assume that the Federal government was not cognizant of the need for an integrated labor policy. One year prior to the enactment of the Clayton Act steps were taken to give labor problems their due emphasis by establishing a separate Department of Labor of equal rank and status with the other executive departments of the Federal Government. Although an act of Congress established a Department of Commerce and Labor in 1903, it was not until 1913 that the Department of Labor became a separate executive department. The purpose of the department was "to foster, promote, and develop the welfare of the wage-earners of the United States, to improve their working conditions, and to advance their opportunities for profitable employment."¹ In addition, the newly created department was charged with the problem of integrating the various programs and policies dealing with labor administered by other governmental agencies.

Among the various bureaus set up within the Department, the Bureau of Labor Statistics and the Conciliation Service were both charged with special responsibilities. It was not until 1917, however, that the Conciliation Service was established officially as a separate unit. World War I gave the Department a tremendous impetus.

By the time the war ended, in 1918, the Department had developed into a War Labor Administration composed of 13 separate bureaus and services and two functional boards. The War Labor Policies Board was created to harmonize administrative labor relations in the various branches of the Government engaged in the production of war materials. And the War Labor Board was formed as a court of last resort to attempt the settlement of industrial disputes that involved war production.1

The Bureau of Labor Statistics forms the core of the Department. In fact, it was the need for specific information relating to labor's relative position in the economy that prompted Congress to establish the Labor Department. Representatives of organized labor made this clear at the Congressional hearings held in 1910. A representative of the A.F. of L. pointed out: "... we should have a department that would know absolutely at all times what we were paying for commodities and what was being paid for labor."2 He continued to point out that "productive value of American labor in comparison with the productive value of labor in other lands ... is one of the things we really do not know ... and ... is one of the facts

1Ibid., p. 204.

that we want a department of this kind to ascertain so that we will know what we are talking about." 1 Obviously labor felt that through the availability of adequate information its fight for better working conditions and favorable legislation would be enhanced.

Prior to Wilson's Administration, the Federal government endeavored to cope with labor problems primarily by setting up special commissions to investigate the causes of industrial conflict. Apart from the laws relating to the railway industry, in which bona fide mediation and arbitration procedures were applied, there were established four commissions organized to study labor problems: The Industrial Commission of 1898; the Anthracite Coal Commission of 1902; the U.S. Commission on Industrial Relations in 1912; and the earliest action, the Senate Committee on Education and Labor of 1882. 2

The World War I period signified the emergence of a new labor policy on the part of the Wilson Administration. This policy was carried out through a temporary war agency referred to as the National War Labor Board.

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1Ibid., p. 4

2Rosenfarb summarizes the investigations carried on by these commissions in his book The National Labor Policy and How It Works, op. cit., pp. 7-8. He makes the following observations:

The facts of labor history were mustered by investigating commissions appointed by Congress, the President, or both. Investigations of labor relations by the federal government date back to 1876.

In 1882 the Committee on Education and Labor of the Senate was directed by that body to undertake a study of the nature and causes of labor disputes and to recommend appropriate legislation. (Continued)
The National War Labor Board of 1918, however, was an outgrowth of a national policy to develop an attitude of cooperation on the part of labor, and to this end to permit, but to discourage, strikes. Instead of prohibiting strikes in accordance with the demands of the employing interests,

Under authority of the Act of October 1, 1888, the President of the United States appointed the United States Strike Commission to study the causes of the Pullman railroad strike of 1894 in Chicago. The commission in its report condemned the anti-union policy of the Pullman Company and deprecated that the courts in the United States, unlike those in England, were still considering labor unions as conspiracies. The report recommended the proscription of yellow-dog contracts requiring men to agree not to join labor organizations or leave them as a condition of employment. The commission also urged employers to recognize labor organizations — that such organizations be dealt with through representatives ...

To investigate the anthracite coal strike of 1902, President Theodore Roosevelt appointed the Anthracite Coal Strike Commission. The report of the commission declared: "The occasion of the strike of 1902 was the demand for an increase in wages, and a decrease in time. The cause lies deeper than the occasion, and it is to be found in the desire for recognition by the operators of the miners' union." The report also found that freedom to join a union is meaningless without the right to be represented by the union. It recommended conferences between employers and representatives of employees freely chosen to settle differences, and the enactment of a law to set up investigating commissions with subpoena powers.

It was in a period of great industrial unrest and strikes in steel, coal, building, textiles and metal that President Wilson, under an act passed during Taft's administration, appointed in 1912 the Commission on Industrial Relations. In its two reports the inequality of bargaining power between the individual employee and his employer, the desirability of collective bargaining, and labor organizations on a national scale were recognized. It also found that the labor unrest was due to efforts by employers to defeat the organization of employees ...

The investigating commissions that made reports on labor relations functioned in different periods, were appointed under different administrations, did not have the same personnel, and (Continued)
the Government sought to accomplish the same end through the recognition of labor's rights. Separate mediation boards in shipbuilding, railroads, cantonment construction, and a few other leading industries, aided materially in the settlement of disputes.

The National War Labor Board was charged with the task of settling controversies by mediation or arbitration in war industries and related fields. The body was composed of representatives from the employing group and from organized labor, with two joint chairmen. The Board formulated a number of guiding principles, including the policy that no strike or lockout should be conducted during the war period; that the right of collective bargaining should be protected; and that the status quo should be preserved in both open and closed shops. The Board was given no power to enforce its decisions, though all awards were binding upon contestants who voluntarily submitted to arbitration. Despite the inability of the War Labor Board to coerce either party in a conflict, it was very successful in preserving industrial peace, as it proved by the fact that no strike or lockout was undertaken in opposition to its awards until after the signing of the Armistice.¹

The success, however, of the War Labor Board cannot be attributed solely to the machinery set up to deal with disputes. Patriotism, increased security prevalent in a full employment economy, growing union membership, higher wages and profits all contributed to the labor harmony prevailing during the war. But as Taylor points out:

The National War Labor Board went out of existence in August, 1919, leaving no Federal adjustment machinery to cope with the nation-wide coal strike of the following November. Attempts to perpetuate the spirit of wartime adjustments proved sterile in peacetime, and were not forced upon industry again investigated different labor disputes. Nevertheless they were unanimous in their conclusions that employers' antagonism to labor organization has not availed to eliminate unionism but has served only to cause wasteful labor unrest, and that therefore collective bargaining and strong unionism ought to be encouraged as a matter of policy.

¹Taylor, A.G., op. cit., p. 578.
until the war upon depression fourteen years later.¹

Nevertheless, in one area, an attempt was made to provide more permanent arbitration procedures — the railway industry. But the reason for this needs little explanation. The Erdman Act of 1890, the Newlands Act of 1913, and the Adamson Act of 1916 were all links in a chain of legislation relating to the settlement of labor disputes in a single industry. With the experience gained during World War I in the settlement of railway labor disputes, the Transportation Act of 1920 assured continued public supervision even though the roads were once again in the hands of their former owners. But the Railway Labor Board, created under the Act, underwent a stormy existence. Although it investigated nearly fourteen thousand cases during its five years of existence it was generally considered by labor as being partial to the employers. Consequently, the American Federation of Labor sponsored the Watson-Parker Railway Labor Disputes Act of 1926. In spite of the opposition of the National Association of Manufacturers, Congress enacted the Bill into law. The new measure abolished the Railway Labor Board and set up a system based more upon voluntary methods of conciliation between the railroads and their employees, upon mediation, and upon arbitration. The Watson-Parker Act is important primarily because it provided the basis for much of the later legislation. It outlawed the company union, and the "yellow-dog contract" and safeguarded collective bargaining.

While labor in the railroad industry fared well at the hands of

¹Tbid., p. 579.
Congress and the courts, labor decisions generally were not favorable toward the worker. At the close of World War I, the anti-trust laws again were considered by the courts in relation to labor combinations. Two cases, mentioned earlier, namely the *Duplex* case and the *Coronado* case, were considered by the Supreme Court. In both instances labor suffered new defeats. The *Duplex* case established four points:

1. First, that the employer's business is a property right which, under Section 20 of the Clayton Act, may be protected by the injunction; second, that the limitations placed upon the issuance of the injunction by Section 20 apply solely to disputes between the employer and his employees, thus providing no protection for union members not in his employ; third, that Section 20 was not intended to legalize the secondary boycott; and fourth, that a labor organization becomes an illegal combination in restraint of trade if and when it departs from its lawful objects.¹

As a result of this case labor realized that the Clayton Act had not provided the immunity which it had hoped for. Confirming labor's suspicions, the ruling of the court in the *Coronado Coal Company* case was even more detrimental. The decision substantiated the financial liability of labor organizations even though they were unincorporated bodies. Although the union was not charged with restraining interstate commerce, the court held that if the evidence had indicated that such was the case, the union would have been liable for damages.

Further inroads were made on union rights in 1921 as a result of decisions rendered in *American Steel Foundries v. Tri-City Central Trades Council*, 257 U.S. 184 (1921) and *Truax v. Corrigan*, 257 U.S. 312 (1921).

¹Ibid., p. 529.
Both involved questions of picketing. In the American Steel Foundries case the court "outlined a kind of peaceful picketing in which only the strikers and laid-off employees might indulge."¹

The Truax decision is even more significant. The Supreme Court "declared the state supreme courts' decision unconstitutional in so far as it interpreted ... (the Arizona anti-injunction law) to prohibit injunctions against tortious and unlawful picketing."² The number of pickets used was also to be determined by the particular circumstances involved in the strike. State supreme courts, in many instances, adopted a rather narrow interpretation of the limitations imposed on picketing in the Truax case and applied similar restrictions to cases coming under their purview.

With the success of the "American Plan" for the open shop, sponsored by the National Association of Manufacturers, labor union membership declined markedly during the 1920's. Moreover, the relative prosperity of the period and the willingness of the courts to grant employer's requests for injunctions held labor disputes to a minimum. Although the injunction was used frequently by employers during the 1920's its effect on trade union growth is subject to much speculation. As Frankfurter and Greene point out:

The organized labor movement in the United States reached its peak immediately following the World War. But for twenty years injunctions had paralleled growth in union membership.³


²Ibid., p. 173.

But the impact of the injunction on the union movement is unmistakably clear. It evoked the hostility and indignation of the trade union leadership and rank and file. Again Frankfurter and Greene provide a lucid commentary:

The history of the labor injunction in action puts some matters beyond question. In large part, dissatisfaction and resentment are caused, first, by the refusal of the courts to recognize that breaches of the peace may be redressed through criminal prosecution and civil action for damages, and, second, by the expansion of a simple, judicial device to an enveloping code of prohibited conduct, absorbing, en masse, executive and police functions and affecting the livelihood, and even lives, of multitudes.\(^1\)

With the onslaught of the depression American labor policy was forced to meet an extreme emergency. It required a complete "about face". Labor policy had to adjust itself to the exigencies of a complex economy. Furthermore, considerations based on economic as well as ethical criteria were required.

**Labor policy in a complex economy**

The depression of the 1930's brought with it many circumstances of a legal and economic nature which were not compatible with each other. Unless drastic actions were taken, the severity of the depression threatened the existence of many of our institutions. These actions can be conveniently classified according to the objective of the particular program pursued: equality of status through collective bargaining, prevention of exploitation of the unorganized worker, security against unemployment and old age, and remedying the economic crisis.

\(^1\)Ibid., p. 200.
By the very nature of these objectives, great difficulties were inevitable. Conflicting objectives of a political and economic nature were inherent in the proposals. The aim of industrial democracy, for example, was essentially a political consideration. The prevention of exploitation of the unorganized worker on the other hand combined both political and economic considerations. Exploitation, of course, could be removed by fostering greater industrial democracy, but at the same time the economic consequences were primarily in the realm of resource allocation.

In fostering equality of status through collective bargaining, a further conflict of objectives arose. In the past the maintenance of the employer's property right had been paramount in the minds of legislators. With the Wagner Labor Act a new "right" was recognized, namely, that of the worker. But apparently one "right" had to be modified in order to create another "right"; i.e. the right of the employer was restricted in order to recognize a "labor right". As Douglas has pointed out:

The fundamental purpose of the Railway Labor Act, the National Labor Relations Act, and the various state labor relations acts, is to make the legal right of the workers to organize and bargain collectively through representatives of their own choosing an effective right which employers are obligated to accord.1

In regard to American labor policy affecting collective bargaining, the stage was set during the 1920's with the enactment of the Transportation Act of 1920 and the Railway Labor Act of 1926.

Out of the experience gained by the government during World War I in its operation of the railroads, further foundations were laid for the labor policy enacted in the 1930's. The satisfactory labor relations in the railroad industry during the war grew out of the policy of recognizing the rights of workers to organize and bargain collectively. The Transportation Act of 1920 translated this policy into statute law. President Wilson also attempted to extend the wartime method of dealing with labor disputes to other industries. To this end he convened the First Industrial Conference in October, 1919. Although this conference failed, Wilson's persistence resulted in the convening of a second conference in December, 1919. It was composed of Herbert Hoover, Julius Rosenwald, Owen D. Young and others. The report of March 6, 1920 unanimously recommended

the establishment of a National Industrial Board, local regional conferences, and boards of inquiry charged with settling disputes through mediation and, in case of failure of mediatory efforts, through compulsory investigation and report by impartial agencies.¹

It was one thing to recommend a rational labor policy and another to have it accepted by employers generally. Given the prosperity of the twenties and the anti-union sentiment prevalent among employers, it was not difficult to convince entrepreneurs that the "American Plan" of breaking unions was more desirable than collective bargaining as a method of guaranteeing labor peace.²

¹Rosenfarb, J., op. cit., p. 12.

It is this background and the onslaught of the depression, during President Hoover's administration, that led to the swing of the pendulum in the other direction. The first step seemed mild indeed as compared to later developments under the Roosevelt administration. By the time depression came, not only was the business man in disrepute, but his frequent resort to the injunction during the previous decade led to a reaction. The force of public opinion found its expression in the Norris-LaGuardia Act of 1932. As Taylor puts it:

The Act was evidently intended to apply to labor the same rule of reason which has been applied to corporations, for it enumerated specific acts which might not be enjoined nor considered as evidence of interest to restrain trade unreasonably.\(^1\)

Unions, under the act, were not to be enjoined from engaging in strikes, violations of yellow dog contracts, picketing not involving fraud or violence, secondary boycotts, aiding strikers financially and all collective acts which are legal when done by a single person. Apparently the act intended to prevent a recurrence of such court decisions as the Danbury Coronado, and Duplex cases. By 1933 the character of the Supreme Court had changed sufficiently so that the Norris-LaGuardia Act was held constitutional in \textit{Lauf v. E.G. Shinner and Co. Inc.}, 303 U.S. 323 (1933).

Yellow dog contracts and the use of injunctions were now outlawed, or limited in their application, but it was not until 1933 when the National Industrial Recovery Act was passed that the right to bargain collectively as such was generally guaranteed. Prior to this time the employed workers of this country had the legal right to

\(^1\)Taylor, G.A., op. cit., p. 539.
seek collective bargaining by lawful means, but there was no reciprocal duty for the employers to accord it. The workers, therefore, had to win collective bargaining solely through such economic strength as they were able to muster, except in those comparatively infrequent cases where it was granted voluntarily by the employers.¹

However, there were many weapons available to the employer enabling him to prevent bona fide unions from mustering sufficient strength to engage in collective bargaining. The following methods were most frequently employed:

1. He could refuse to meet in conference with representatives of the workers or to discuss the issues at stake.
2. He could discharge, demote or discipline workers in his employ who were active in promoting the cause of the union.
3. He could persuade, advise and threaten employees with possible consequences in order to induce them either not to join a union or to give up their membership therein.²

In addition, the employer could utilize labor spies to determine the activities of his workers or of union organizers in his plant. Blacklisting, although illegal, also was frequently used and the creation, financing, and encouragement of company unions was an effective way of keeping outside organizations from penetrating the plant.

Considering the insecurity of employed workers during the depression and the powerful techniques of "union busting" available to the entrepreneur, it is not surprising that large areas of American workmen were actually afraid to join unions. With surprising rapidity, the Roosevelt Administration effected revolutionary changes in the relationship of employer and employee. The National Industrial Recovery Act through Section 7A encouraged workers

¹Douglas, P.H., op. cit., p. 735.
²Ibid., p. 735.
to affiliate with unions of their own choosing but did not adequately protect workers from the possible consequences of such activities. In 1934, the Railway Labor Act of 1926 was amended

imposing an obligation upon the employer to bargain collectively with the representatives of the employees, forbidding employers to maintain company-dominated unions, and generally strengthening the powers of the National Mediation Board to protect collective bargaining in a way that presaged the provisions of the National Labor Relations Act.¹

One year later the Wagner National Labor Relations Act was passed. It grew out of the obvious weaknesses of Section 7A and the resolution of 1934 which established the first National Labor Relations Board. Public Resolution No. 44 approved June 19, 1934
did not define any set of unfair labor practices, but merely authorized the boards which the President might set up, to certify groups which represented the workers for collective bargaining, and authorized them to hold elections if necessary to determine whom the workers really wanted to represent them. This resolution grew out of a bill drafted by Senator Wagner and introduced in March of that year, which was the forerunner of the act passed a year later.²

The Wagner Act of 1935 establishes a landmark in American labor history. It was partially modeled after the railway act of the preceding year and apart from affirming the stipulations embodied in the N.I.R.A., which was declared unconstitutional, specific unfair practices were also enumerated.³

¹Rosenfarb, J. op. cit., pp. 11-12.
²See Douglas, P.H., op. cit., p. 736n.
³According to the statute, an employer may not engage in the following practices:
(1) interfere with, restrain, or coerce employees in the exercise of their rights to self-organization and collective bargaining.
(Continued)
In the spring of 1937 the question of the constitutionality of the Wagner Act was settled in a series of cases, the key decision being rendered in N.L.R.B. v. Jones and Laughlin Steel Corp., 301 U.S. 1 (1937).

The provisions of the Wagner Act were to be administered by the National Labor Relations Board. An interesting sidelight with respect to the functioning of the Board should be noted at this point. Evidently the tremendous sweep of labor legislation during this period was not easily accepted by the employers. It was too much of a break with the past and entrepreneurs, as a class, were not convinced that the courts would sustain such legislative enactments. This can be seen from the experiences of the Board after the Act was passed.

For over a year and a half after the Board was set up, its decisions were ineffective because of a common belief that the Act would be declared unconstitutional and because large numbers of injunctions were obtained from the courts by employers which restrained the Board from putting its rulings into effect.

(2) Dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it.
(3) Encourage or discourage union membership by discrimination in regard to hire or tenure of employment or condition of work, except such discrimination as may be involved in a closed-shop agreement with a bona fide union.
(4) Discharge or otherwise discriminate against an employee for filing charges or testifying under the Act.
(5) Refuse to bargain collectively with the representatives of his employees.


2 Douglas, P.H. op. cit., p. 745.
With the constitutionality of the Act sustained, the Board gained respectability and the volume of cases coming under its jurisdiction increased enormously. As Herrick has pointed out:

Four factors sharply influenced the form of the National Labor Relations Act, its effectiveness, and the character of its administration. These were (1) the brief experience with Section 7 (a) of the National Industrial Recovery Act (passed June 1933); (2) the revelations of employer anti-union activities by the La Follette Civil Liberties Committee; (3) the anti-N.L.R.B. tactics of the Liberty League; and (4) the bitter rivalry between A.F.L. and C.I.O. groups.1

The major purpose of the Act was obviously to equate the bargaining power between labor and management. Its great failure however, was that it did not anticipate the variety of problems which were certain to arise, should it successfully achieve its purpose. No real provision for the settlement of industrial disputes between two equally powerful groups was provided for. Moreover, there were other difficulties which were not recognized at the time.

When the Congress yielded to the pressure which forced the passage of the Act, it only approved a generally conceded right and created the machinery for enforcing that right without sufficient endeavor to provide for the disposition or resolution of the extremely difficult minority problem. That problem, let it be remembered and emphasized, crops up in relation to the closed-shop issue, the run-off election, the majority rule, and the unit problem.2

Although the N.L.R.B. tried desperately to overcome the limitations of the Act and frequently gave way under political pressure, the foundations

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of its authority were slowly being chipped away by groups adversely affected by its decisions. Employers, through their own associations, demanded the repeal of the Act. The A.F.L. suggested amendments hoping to end the Board's "favoritism" toward the C.I.O. These demands continued to grow and during World War II the possibilities of turning back the clock received encouragement with the passage of the Smith-Connally Act. With World War II over there were indications of a repeat performance of the American Plan expressed in the form of the Taft-Hartley Labor Law.

In tracing the development of labor legislation we have described the public's growing interest in labor-management relations. That interest expressed itself in terms of two diametrically opposed viewpoints, over the short span of twelve years. The National Labor Relations Act of 1935, apart from attempting to "equate bargaining power", assumed that government should undertake no further responsibilities in the affairs of labor and management, with the possible exception of providing conciliation activities.1

The Labor Management Relations Act of 1947 reflected a marked change in the public's temper and philosophy. According to Taylor:

The fundamental significance of the Taft-Hartley Act is in its far-reaching extension of government control over industrial relations. So broad is the jurisdiction of government under that Act that it raises serious questions about whether or not collective bargaining is destined to be largely supplanted by government directive. For the present at least, the notion that 'there ought to be a law' is in the ascendancy over the idea that 'he governs best who governs least'.2

2Ibid., p. 10.
In its declaration of policy, the Taft-Hartley law offers to "promote the full flow of commerce". This it proposes to accomplish by specifying procedural, administrative and legal proscriptions concerning the rights and duties of labor and management as they affect "the flow of commerce" and the public welfare.

Since the Taft-Hartley Law views the "flow of commerce" as being ultimately related to the state of "industrial relations," we shall limit ourselves to this brief description of the law's policy declaration. We propose to show in the remainder of this study that (1) public policy has failed to recognize the full implications of such vaguely identified concepts as "the flow of commerce," (2) concretely, "the flow of commerce" must be defined in terms of the level of full employment, national income and the optimum allocation of resources; (3) "industrial relations" policy is only remotely associated with the foregoing requirements.

Davey makes the following distinction:

Collective bargaining has its inherent limitations. It may not be equipped to handle such 'organic' problems as
1. The prevention of any appreciable amount of involuntary unemployment.
2. Assuming full employment is attained, the maintenance of economic stability by checking inflationary pressures.
3. The attainment and maintenance of a more equal distribution of the national income.

But collective bargaining is unquestionably the best instrument at hand for solving the numerous functional problems of pure labor relations which, by their very nature, lend themselves to a private solution.²

It is our contention that these "organic problems" are major determinants

²Davey, H.W., "Future Patterns in Collective Bargaining", Speech delivered before the Midwest Economics Association, St. Louis, Mo., April 23, 1949. (Mimeo, p. 16.)
of the "functional problems" which may arise.

Only passing comment will be made on American labor policy dealing with the other objectives enumerated earlier. Specific analysis and documentation will be provided in later sections where these policies fall appropriately within the scope of this study.

To prevent the exploitation of unorganized labor attempts were made to establish minimum wages and maximum hours of work. Prior to the National Industrial Recovery Act of 1933 there was no Federal wage and hour legislation covering workers in private industry. The "floors" under wages and "ceilings" over hours of labor under the NIRA, however, were short lived as a result of the Supreme Court decision declaring the Act unconstitutional. In 1936 the Walsh-Healey Public Contracts Act was passed providing for a basic eight hour day and forty-hour week with time and one-half overtime pay in all industries having Federal contracts of more than $10,000. Of course, Van Buren as early as 1840 had established a precedent for such action, but in 1938 the Roosevelt administration embarked on a program involving rights traditionally reserved to the states. The Fair Labor Standards Act provides for a rigid scale of wages and hours for workers engaged in or producing for interstate commerce. Workers under the Act are now provided with a minimum wage of forty cents per hour with time and one-half for hours worked in excess of forty hours. In addition child labor under 16 years of age is prohibited and in hazardous occupations the minimum age requirement is 18 years of age. Obviously the purposes of the Act were mixed — to raise the level of living of low paid workers and also to help bring back prosperity by increasing the spending power of those
workers having a high propensity to consume.

Federal policy in the area of social insurance marks a veritable revolution in the responsibilities of the state to its citizenry. Early in our history the general attitude of society toward the specter of poverty in old age or industrial injury was not only one of apathy but also of resignation. It required a major economic debacle such as that of the early 1930's to motivate a great transformation in our policy toward the misfortunes affecting industrial workers in our complex society. The Roosevelt Administration utilized a two-pronged attack in dealing with problems of social insurance. Taking over the job of caring for the needy and unemployed from the wavering private and state-local administrative units it instituted first, a vast federal "work relief" program and second, social security legislation. The work relief program, based originally on the necessity of feeding the unemployed, was soon transformed into a program having a more significant objective, namely, that of remedying the economic crisis. However, the objective of social insurance was provided for in the Social Security Act of 1935. Provision was made under the Act for unemployment insurance (essentially administered by the states), old age insurance, and special aid to needy persons such as dependent children, rehabilitation for the physically disabled, and so on. Two years previously the Wagner-Peyser Act provided for the establishment of employment exchanges in order to increase the mobility of labor and provide the worker with information regarding the labor market, paralleling similar services provided for other groups in the economy, e.g., agriculture, commerce, and industry.
In summarizing the policy of the Federal government in this area it need only be pointed out that the whole social security program rests largely upon ethical and moral foundations; the premise is that it is the responsibility of society to care for those who for some reason are temporarily or permanently unable to care for themselves. As such it represents the greatest departure in public policy yet experienced by our federal government in its attempt to regulate the economy.

No attempt has been made in this study to give a detailed account of all the policy proposals enacted during our history. Moreover, many considerations of an economic nature affecting labor policy were only touched on. Nevertheless, a continuous thread seems to underlie the fabric of labor policy from colonial times to the present. At times it was difficult to determine the direction or goal of legislative enactments, court decisions or administrative orders. But as Jevons has said:

... we must remember that, do what we will, we are not to expect approach to perfection in social affairs. We must recognize the fact clearly that we have to deal with complex aggregates of people and institutions, which we cannot usually dissect and treat piecemeal. We must often take 'all in all or not at all'. Tolerance therefore is indispensable. We may be obliged to bear with evil for a time that we may avoid a worse evil, or that we may not extinguish the beginnings of good. In the end we shall not be disappointed if our efforts are really directed towards that good of the people which was long ago pronounced to be the highest law.¹

Economic Guideposts For Policy Decisions

Policy Defined: The term "policy" may be defined as any action or procedure which conforms to or takes cognizance of prudence or expediency. Government policy therefore, suggests such action or procedure directed toward individuals or groups and designed to regulate their mode of conduct with respect to each other.

Democratic governments are delimited in their procedures, however, by two major considerations. The objectives of policy must be consistent with the generally accepted ends of society. But this is only a necessary condition. It may not be sufficient, however, if certain means, apart from the end in view, are barred, or if the community has certain preferences with regard to the alternative means utilized. Many of the difficulties encountered by policy makers today stem from these sources. They are not only required to carry out policies based on acceptable ends, but the means of implementing these policies are also selected for them. Why then is it necessary to frame a policy or enact a law if society already has passed judgment on such matters and presumably acts in accordance with those rules of conduct which it would advocate? Admittedly public sentiment is a far more effective method of social control than the most carefully drawn legal enactments. But in spite of the two foregoing restrictions placed on the policy maker there are good reasons for attempting to regulate the activities of individuals and other economic units. First, society may agree that fundamental changes in behavior are desirable but that action must require all units to change their behavior simultaneously lest the
more venturesome are taken advantage of by those who have much to gain by maintaining the status quo. Secondly, although society may in the aggregate behave in a particular fashion, individuals or groups may on occasion deviate from the accepted norm unless restrained by law or the mores of society. In this case laws are drawn essentially for the non-conformist.

The Nature of Law: In any case laws are frequently drawn in an effort to substantiate public desire. Whitehead lists several reasons for the enactment of legislation for this purpose:

1. Certain persons may be tempted to ignore public sentiment, or even their own usual sentiments, for an immediate personal gain...
2. People are forgetful and public sentiments cannot always be mobilized or ascertained on the spur of the moment; they require dramatic and formal statement...
3. Public sentiment is directed towards a desired end; it often fails to indicate the means. In fact, the latter sometimes involve highly complex matters requiring technical knowledge...
4. Public sentiment may be sufficiently coherent but be out of touch with a group whose actions it wishes to guide...
5. Where the actions of a number of people, often strangers to each other, interlock, it is important to know what each member is going to do. Sometimes certainty of expectation is more important than the precise code adopted. The public sentiment is merely that there shall be some reasonable code universally adopted...
6. An actual situation requiring immediate public attention is always local both in space and in time. The local sentiment may be temporarily biased and fail to represent the more stable sentiments of society at large.1

Role of Administrator: Any discussion of government intervention in the economic affairs of individuals or groups must consider the vehicle by which

policies are implemented. We have already mentioned the nature of the legal process, but intentionally bypassed the administrator of the law. It is therefore necessary to consider the role of the administrator in the carrying out of any program. "The purpose of all law is to impose fixed patterns of behavior upon the life of society. No fixed pattern can ever hope to be comprehensive enough to make adequate provision for all contingencies."\(^1\)

Hence, the administrator must be given sufficient discretionary power to cope with problems lying within the area affected by the legislation. It would be a rare phenomenon indeed to find a law so framed that interpretations of one sort or another were found unnecessary. Yet too frequently administrators are accused of being arbitrary and dictatorial when in fact critics are requesting that the law administer itself.

In recent years, as a result of the many outcries against vesting administrators with arbitrary power, a pattern of legislation has grown up which attempts to accomplish two major objectives: (1) law by formula, whereby relatively simple calculations can provide appropriate courses of action and (2) legal inflexibility, whereby legislators assume the partial function of the administrator and consequently limit the discretionary authority of the appointed administrator.

It is obvious that the two foregoing objectives are somewhat inconsistent. Although the dangers of vesting individuals with arbitrary administrative authority have been perhaps unduly emphasized, it must not be forgotten that

legislation by formula may be just as arbitrary. The latter is unquestionably the more dangerous approach, since no single individual can be held responsible for the "mistakes" which may take place, and it is protected by the cloak of legislative anonymity. A more fruitful approach has been suggested by Hart:

A promising compromise lies in what may be tagged 'framework — incentive' planning. Much of our planning intelligence should go into mapping out a 'framework' of rules for economic affairs, designed to serve with only gradual changes. But there has to be a variable element in policy — particularly economic stabilization policy. The 'framework-incentive' approach tries to limit this variable element to impersonal and impartial measures, carried out with full publicity and minimizing the danger that individuals will be 'pushed around' by officials — or by other individuals who know how to take advantage of quirks in the rules and their enforcement. These measures, then, will not consist of 'directives' from government to particular firms or households. They will influence private decisions by changing the 'incentives' which underlie those decisions —largely by affecting markets.1

It is within this general context that economic analysis is to provide the guideposts for policy decisions.

Acceptability of Ends: There are certain broad objectives which the citizens of any society seek to fulfill. In the selection of alternative means to be used in achieving these goals the economist can provide a valuable service to the community. Subject to the restrictions placed on the means to be utilized, a number of ends can be taken as given. Various writers have attempted to set forth the major values held by democratic societies. Other value systems might be used just as well to guide economic policy. These include value systems which are held by special interest groups within a

democratic society as well as those held by societies not impressed with the democratic ideal. Many of the difficulties encountered by policy makers in the United States, however, grow out of the dual system of values supported by individuals as members of society at large and as members of special interest groups. One could in fact say that there exists a "priority of loyalties", each category having its own set of values, the components of which may agree or conflict with those of another set. In evaluating a set of ends it is not only necessary to question its internal consistency but also the compatibility of one set with other sets adhered to by individuals.

Several questions are raised by the foregoing discussion. Do we assume too much in describing the behavior of individuals in terms of rational conduct? If the components of several sets of value systems conflict, can we conclude that the individual is acting irrationally? Mannheim in discussing the "crisis in valuation" sets forth the major contradictions facing our contemporary social environment.

First, there is the religion of love and universal brotherhood, mainly inspired by Christian tradition, as a measuring-rod for our activities. Then there is the philosophy of Enlightenment and Liberalism, with its emphasis on freedom and personality, and its appreciation of wealth, security, happiness, tolerance and philanthropy as the means of achieving them. Then we have the challenge of the Socialists, who rate equality, social justice, basic security and a planned social order as the chief desiderata of the age. But beyond all this we have ... the most recent philosophy, with the demoniac image of man emphasizing fertility, race, power, and the tribal and military virtues of conquest, discipline and blind obedience.1

This cleavage of goals runs somewhat deeper than the mere recounting of formal value systems. For as Mannheim points out,

it is not only work but also leisure that is subjected to entirely different interpretations and valuations. The puritan sense of guilt in connection with leisure and recreation is still at war with the emerging hedonistic cult of vitality and health. The idea of privacy and contemplation, and of their value, is at war with that of mass enjoyment and mass ecstasy.1

Yet this too, according to Mannheim, is not the whole story. There are even more fundamental differences:

Thus there is nothing in our lives, not even on the level of basic habits such as food, manners, behavior, about which our views are not at variance. We do not even agree as to whether this great variety of opinions is good or bad, whether the greater conformity of the past or the modern emphasis on choice is to be preferred.2

It is fundamental therefore that we reopen completely the whole matter of ends which are presumed to be acceptable to society. There have been innumerable discussions recently of policy and planning which take specific goals as given and propose alternative means to achieve these ends. Copland, for example, lists the following acceptable ends as guides for the policy maker:

(1) Stable employment at a high level.
(2) A more equitable distribution of the products of industry.
(3) A rising standard of living.
(4) A wide scope for private enterprise within the framework of social control.
(5) The maintenance of a vigorous system of private enterprise.3

1Ibid., p. 17.
2Ibid., p. 17.
Bowman and Bach provide another list of acceptable objectives:

1. Allocation of resources in accordance with consumer preferences.
2. Freedom in the choice of a job or business.
3. Equity in the distribution of income.
5. Stability and security.

A third list of objectives is provided by Allen and Brownlee:

1. Economic policy and economic efficiency.
2. Full production and employment.
3. Freedom in resource disposal.
4. Economic progress.
5. Equity in the distribution of income.

In each case the writers admit that there are many difficulties to be encountered in determining acceptable policy. They also admit that a particular word (e.g., equity) or phrase (e.g., stability and security) may mean different things to different people. Yet all infer that society does in fact have a system of values and the task of the policy maker involves the discovery of that set having "universal" appeal. There are reasons for believing that much of the "means-ends" discussion taking place among economists today presents a vast over-simplification of the concept. In fact the goals of a society are nebulous phenomena involving perhaps as much in the way of "process" as they do in the way of "principle". A somewhat clearer restatement of the foregoing is provided by Mannheim.

There is definitely a coherent system of social and psychological activities which constitute the process of valuation; among them value creation, value

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dissemination, value reconciliation, value standardization, 
value assimilation which favour or upset the smooth working 
of the process of valuation.¹

He then goes on to say that the process no longer works smoothly because 
fundamental social factors on which the process depended have broken down.²

If then policy decisions and planning are to take place in a veritable 
wilderness of values, the role of the economist takes on new significance. 
As Mannheim sees it, (and as the field of welfare economics provides 
techniques of analysis), the economist

should tell us which classes and groups will profit, which 
will lose most, if one scheme or another is carried out. 
... If we know who will suffer most from any necessary 
alterations, it is possible to provide for them, to compensate them, to re-train them, to give them new functions in society.³

Insofar as values are concerned, the economist can only recognize the 
existence of three broad areas of valuation, taking the first area as the 
framework for policy decisions and the compensation principle of welfare 
economics as the major device in reconciling conflicts which may arise 
between the other two. For example, ends or goals may be classified 
under the following three main headings:⁴

(1) General Ethics
(2) Ethics of personal relationships
(3) Ethics of organized relationships.

¹Mannheim, K., op. cit., p. 20.
²Ibid.
³Ibid., p. 158.
⁴Ibid., p. 165.
The selection of means attempting to achieve goals which conform to (1) above are appropriate and do not necessitate compensation if (2) and (3) remain unaffected as a result of the action taken. Any policies, however, which of necessity directly involve (2) and (3) may be legitimate, providing compensation is made to the individuals or groups adversely affected.

The allocation problem

Amid the maze of conflicting values, one end or goal in the realm of "general ethics" that most citizens would subscribe to, in principle at least, is that waste and inefficiency in a world of scarcity is unjustified and should not be tolerated. Since waste and inefficiency exist, however, and individuals or groups earn their living by engaging in such activities, any reorganization designed to eliminate wastefulness must immediately take account of the value system guiding the behavior of individuals thereby affected.

As Talcott Parsons points out in connection with his description of Max Weber's analysis:

It is at this point that Weber introduces one of the fundamental elements of tension in the modern economy, what he calls the tension between the 'formal' and 'substantive' (material) rationality of the economy. By the unfamiliar term formal rationality he means the extent to which it is possible to carry through accurate rational calculation of the quantities involved in economic orientation of either of the above types, and hence to act upon the results of such calculation. By substantive rationality, on the other hand, he means the extent to which it is possible to secure what, according to a given system of values, is an adequate provision of a population with goods and services, and in the process remain in accord with the ethical
requirements of the system of norms.

The tension arises from the fact that a high level of formal rationality can be attained only under certain specific substantive conditions, which are always in some important ways in conflict with the interests and moral sentiments implied in a high level of substantive rationality.¹

For the policy maker, a less sophisticated statement of the problem of efficiency must do. This is not to say that the tensions enumerated by Weber are unimportant. Disregarding them may in fact sabotage any effort to improve on the manner in which the economic process is to be reoriented. One way of minimizing these tensions, i.e. by attempting a reallocation of resources in a full employment environment, will be taken up later. For the present, however, it will be useful to specify more rigorously the conditions necessary for the achievement of an optimum allocation of resources, assuring the absence of restriction on resource mobility and the availability of adequate knowledge on which economic decisions are to be based. Under these circumstances the major purpose of economic analysis is one of comparison — between the present situation and what might be achieved under the same circumstances. And, as Johnson has pointed out, "Viewed in this light, the major problems arise as discrepancies between the two circumstances."²

We must therefore investigate the character of our labor markets and the


extent to which wage policy can contribute to a better allocation of labor resources than we now find prevalent. Fundamentally, in an enterprise economy, the price mechanism (as it applies to both factor and commodity prices) has a threefold function: (1) it determines the manner in which goods and services will be distributed among consumers, (2) it determines how the factors of production will be distributed among their many alternative uses, (3) it determines what share of the total income produced will go to the owners of productive resources. With respect to resource allocation, an optimum division of the factors of production is reached when it is no longer possible to increase total output by shifting a factor of production from one use to another. Or, as Lerner describes it, "The optimum division of a factor among different uses implies that the value of its marginal product is not less than the value of any alternative marginal product."\(^1\)

In our labor markets these conditions are not fulfilled because:

(1) Mobility of labor is restricted due to trade union regulations, imperfect knowledge concerning job opportunities, social and economic costs of movement and the heterogeneous character of the labor market (i.e. skill and experience requirements attached to different kinds of employment).

(2) There are imperfections in the commodity markets (i.e. the existence of monopoly, oligopoly and monopolistic competition).

(3) There are imperfections in the factor markets, apart from those resulting from labor immobility (i.e. the existence of monopsony, oligopsony and monopsonistic competition).

Labor policy, as seen from the vantage point of the policy-maker, must therefore attempt to rectify (1) and (3) above if an explicit resource problem is to be recognized. Other policies, outside the scope of labor policy, are required to deal with (2). But in any case it must be recognized that a government program designed to meet the allocation problem must be an integrated one. It will not do to attempt to cope with one or the other of the components listed above. Many of our labor problems today grow out of the differential treatment accorded business groups or agricultural groups as compared to laboring groups. Obviously in a complex economy such as ours, "monopoly" breeds "monopoly" — unhampered restriction on the part of one group provides the incentive and "justification" for all other groups in society to use the same techniques. We can preach, if we like, about industry, labor, or agriculture making the initial sacrifice, but no one group willingly will give up restriction merely to prove to the others that it recognizes the harm its actions have caused the general welfare and would like the others to follow its example. As Sir Oliver Franks has recently suggested,

Central planning means that it is no longer possible for a Government to have a number of policies each of which can be pursued to some extent independently of the others. Housing, social security, exports and defense are all factors in the general plan: the extent to which resources can be devoted to each is determined when the general balance is struck.  

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Partially responsible for the resource problem in our labor markets is the confusion which exists with respect to the dual function of the wage mechanism. Wage rates not only allocate labor but also determine, in part, the income of laborers. Analytically, however, a useful separation can be made between the income problem and the resource problem. This separation however seems to be ignored, for example, in the framing of minimum wage legislation and trade union leaders are necessarily oblivious to the employment effects of their wage bargains. It is therefore imperative that policy-makers understand clearly the nature of the income problem.

The income problem

Dr. Johnson provides the following definition:

The divergence between the actual distribution of personal incomes resulting from resource prices and the existing ownership of resources, and that fulfilling adequate democratic social welfare criteria constitutes the income problem.

Frequently, labor economists and policy-makers fail to distinguish adequately between the wage rate and the wage income received by workers. It is not surprising that this distinction should be confused since the wage rate is an important, but not sufficient, component of income. The income of an individual

1 Johnson, D.G., op. cit., p. 633. This distinction is also made by Schultz, Nichols and other writers in the field of agricultural policy.


3 Johnson, D.G., op. cit., p. 633.
in a private enterprise economy, however, is determined by several criteria:

(a) the existing distribution of resource ownership (physical property, etc.);

(b) the existing distribution of personal property (including personal skill and capacity);

(c) payments made by society for the use of these resources.

The actual distribution of income can be altered, of course, by altering any one or some combination of the above income components. It should be noticed, however, that even in a perfectly competitive enterprise economy, where all factors are fully employed and factor prices coincide with the economic contribution of each factor at the margin, individual incomes would not necessarily meet the welfare standards usually accepted as the American ideal. This is so because of the great divergence of resource ownership as between one individual and another in society. Although much can be done to alter the ownership of physical property — all men are not created equal — there are wide differences to be found among individuals with regard to aptitude, intelligence, and inherited skills. And since these elements of personal property are offered to society at a price, the relatively scarce offerings will obtain a premium over the more abundant. In the real world these differential payments are further accentuated by the attempts of individuals and groups to deny others free access to those opportunities which would enable them to maximize their economic contribution.

The great advantage of giving the price mechanism free reign rests on its superiority as an allocative device. Society has shown that undesirable
income effects which may be attributable to its method of operation can
be dealt with by other means. Fundamentally, the graduated personal income
tax, the provision of free education, medical services, and the like are
all designed to mitigate the distortions of income distributed on the basis
of economic contribution and existing resource ownership.

Government labor policy has mixed the resource and income problem badly
in the past, and if it follows the present procedures used in agricultural
policy as a guide for future labor policy it would indeed be unfortunate.

In what follows a separation of the income problem and the resource
problem will be undertaken in an effort to clarify the major problems con­
fronting labor markets. This analytic separation, although somewhat arti­
ificial, since attempts to influence income may also lead to allocative effects
as well, nevertheless has the merit of emphasizing the particular objectives
requiring attention. It also avoids certain rather naive notions concerning
the applicability of policies affecting the income problem to the further
use of dealing with problems of allocation. Admittedly, there are restricted
areas in which improvements in the distribution of income will at the same
time contribute to the more efficient utilization of the human agent; for
example, greater mobility may as a consequence be achieved or better education
may enhance the value of the worker in the labor market. But there are
limitations to the usefulness of such techniques in dealing with the more
complex features of the resource problem. In a similar fashion, efforts to
enhance the income of individuals by increasing the price (wage) of the
service they have to sell may fall short of achievement, since the quantity
of the service that can be sold at the higher price may not be sufficient to provide an adequate income.

It would seem preferable, therefore, to permit the wage mechanism to function unhindered in our labor markets, meeting the income problem specifically whenever or wherever it arises.

From what has been said thus far it should not be inferred that rational labor policy can provide a cure for the other economic ills affecting society, but a consistent overall economic program must include a public wage policy geared to these larger objectives.

We shall, therefore, restrict ourselves to the following relevant considerations:

(1) The activities of trade unions as they facilitate or inhibit the most efficient utilization of labor.

(2) Governmental labor policies which are suited to deal with problems created by such activities.

(3) The areas of conflict between policies attempting to meet the income problem and those designed to solve the resource problem.

Aim And Scope Of Study

What major labor problems lie specifically within the realm of government intervention? How may government cope with industrial conflict, yet remain within the bounds prescribed by an enterprise economy? Under what circumstances is it legitimate for government to overstep these bounds, providing the individual's relative freedom in the disposition of his
resources is safeguarded?

These are policy questions which the economist can say something about. The difficulties to be encountered in providing solutions, however, are not to be minimized. As one author has pointed out:

Of all the possible points of conflict between conscious planning of priorities and traditional freedoms, the regulation of wages is likely to prove the most stormy. Successful planning may indeed be dependent here upon deep changes in social attitudes. For if certain jobs are in fact to be done, it is obvious that there cannot both be complete freedom to choose and to refuse your job, and equal freedom to choose and refuse the wages that you are to be paid, except in the sense that free choice of employment necessarily implies the right to turn a job down on the ground that the wages offered are insufficient. Where, however, the practice of independent collective bargaining is well established, organized workers are accustomed to claim much more than this. They expect the rates of wages payable in different trades and occupations to be fixed by a process of free collective bargaining between the employers and workers in which nobody else has meddled.¹

Much that has been said in recent years about the role of the social scientist in dealing with policy matters bears repetition even at the risk of belaboring the argument. The "means-ends schema" has a peculiar significance when applied to labor policy, inasmuch as the generally accepted "ends" of society manifest many inconsistencies. Indeed, the economist is required to skate on thin ice, dotted with special interests "fishing" in a multitude of economic crevices. There are not merely conflicts of interest to be reconciled between labor and management. There are deep conflicts to be reconciled between skilled and unskilled organized workers; workers belonging to trade unions and the unorganized worker; workers in one

geographical area and those located elsewhere, and so on. More difficult perhaps is the conflict of interest inherent in the worker as worker and the worker as consumer. Nevertheless, government must either take direct action or provide the necessary economic environment in which these self-inflicted wounds may heal.

Because of the nature of the subject, much of the argument which follows will confine itself to the broader questions of policy; namely, the optimum allocation of labor resources and the achievement of full employment. Frequently, however, it will be necessary to investigate the behavior of the individual trade union or firm as the motivations of these organisms bear directly upon the question at hand.

For the most part, the theoretical principles underlying each of the major areas of investigation will precede the policy recommendations made.

No attempt will be made to cover analytically the entire field of legislation affecting labor since this study contemplates problems which are bound to arise as a result of past enactments. We have in effect only set the stage for important policy decisions, now that a substantial balance of power has been achieved between labor and management. The use of the term "balance of power" in no way reflects any judgement on the part of the author with respect to its desirability as a continuing policy. It is also recognized that a "balance of power" policy in the field of industrial relations is subject to the same criticism as it has been in international affairs.¹

Perhaps the major reason for rejecting the "balance of power" concept is that it involves a precarious arrangement and is extremely unstable. This may or may not be true. Much depends on what society does about removing the forces which account for the instability. It is our contention that a "labor policy" will contribute toward this end.

The uncertain course of economic events in our economy has provided the major economic groups affected with two primary incentives. In the first place, wherever disturbances of an economic nature are imminent or anticipated, attempts are made to "cushion" the shocks with a minimum of sacrifice. These endeavors are illustrated by the activities of workers, organised or not, to protect employment opportunities, investment in skill, occupational preferences, and earning power growing out of technological change. Labor immobility is also somewhat related to this first incentive. The "lump of labor" principle and the fear of cyclical unemployment are in part an outgrowth of this initial motivation. They all represent a behavior pattern designed to prevent any deterioration in the economic status of the group. Secondly, all groups have aspirations designed to improve their immediate economic status. Considerable gains can be achieved without imposing losses on other groups, but frequently success is measured by gains achieved at the expense of others. The economic problems that stem from this source, however, are made difficult fundamentally because of the existing mores and "codes of conduct" prevalent in our society. The sociological investigations dealing with "white-collar and business crime"\(^1\) bear out this contention. Hence,

\(^1\)For a definition of "white-collar crime" see infra p. 111.
what government policies are appropriate to deal with economic welfare when individual satisfactions are measured not only in terms of net gains to the group concerned but losses inflicted on opposing groups as well.\(^1\)

Profound changes of a secular nature involving population and technology are constantly affecting the number of workers seeking jobs in the aggregate and the kinds of jobs they are likely to find. Over night a worker may find his skill obsolete as a result of some technological innovation. In the business community, such obsolescence can be taken care of by amortization schemes, tax deductions, etc. Can government provide similar allowances on a reasonably comparable basis for workers subject to such risks? It would appear, from a policy standpoint, that a "secular manpower budget", which would indicate the required increases and decreases in occupational categories, over a ten-year period, could easily be drawn up to meet the fluctuating requirements of our labor markets. The recent Twentieth Century Fund survey would provide much of the basis for such a budget.\(^2\)

Although the emphasis thus far has been related to the institutional and secular forces at work in our labor markets and the governmental policies required to meet the problems these create, our apparently chronic deviations from full employment suggest a more immediate task. Yet in this area the gravity of the problem is somewhat more difficult to alleviate

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\(^1\)An elaboration of this point can be found in Tintner, G., "A Note On Welfare Economics", *Econometrica*, vol. 14, No. 1, January, 1946, p. 74.

since economic theory is not able to provide an adequate solution, and
certain governmental policies that may prove fruitful are not completely
acceptable to society.

The final section of this study attempts to suggest a unified labor
policy to be followed by the Federal Government under varying political
circumstances and some of the specific obstacles to be overcome.
LABOR POLICY AND ECONOMIC INSTABILITY

The Problem of Adaptation

Both labor and management are subject to a variety of disturbances constantly upsetting their established modes of behavior. The very process of change is repugnant to all institutions and standards of procedure which have been predicated on the maintenance of the status quo. Change, per se, not only threatens the exclusive positions obtained in many instances by large investments of money and effort. It also compels individuals and groups to sacrifice operational procedures ingrained through force of habit.

In order to avoid the confusions associated with change, most individuals and groups attempt either to prevent change altogether or adopt practices which will minimize the concomitant dislocations. That is to say, change may be permitted to come about gradually while provision is simultaneously being made for adjustment. This latter procedure, however, is not always feasible if the process of adjustment involves the cooperation of external forces over which the group subject to change has no control. In that event, complete resistance will invariably be the policy followed.

Society has a large stake in the encouragement of economic progress. Frequently, however, there is mere recognition of the advantages to be obtained, without consideration of the conditions necessary for its ultimate universal acceptability. There are four major sources of instability in an economy which require alternative forms of adjustment on the part of the individuals or groups affected. They can be classified according
to the following categories:

(a) Adaptation to technological innovation.
(b) Adaptation to labor immobility.
(c) Adaptation to non-economic "codes of conduct".
(d) Adaptation to cyclical insecurity.

Each of these categories raises special problems of a policy nature and will be discussed in the order presented above.

**Technological innovations**

The impact of technology on society, and more specifically on labor, has many facets. One could, of course, approach the problem from as many different points of view. Here, however, we are concerned with only two aspects of the problem: (1) what factors enter into the decisions of entrepreneurs with respect to their adoption of innovations, and (2) what is the reaction of labor to such changes. Government policy, of course, can provide the necessary environment in which technological improvements may be facilitated. Secondly, government policy can create a favorable economic climate in which labor unions would feel less obligated to safeguard the job tenure and investments in skill of their members.

Perhaps the most satisfactory analysis yet to appear of entrepreneurial behavior with regard to the application of innovations is that provided by Lange. Previous attempts on this subject, notably the analysis provided by

Joan Robinson,¹ omit the important elements of risk and uncertainty attached to such decisions.

Lange proceeds in the following fashion. He first points out that:
"As a rule, future receipts and future expenses are expected with a minor or major degree of uncertainty, and this uncertainty is taken into account by the firm when planning its activities."² The entrepreneur, in making his decisions, has some notion regarding "the most probable outcome of the decision and the range within which the actual outcome may deviate from the most probable one."³ It is further assumed that firms are willing to pay for reduced uncertainty by sacrificing a portion of their most probable value of expected receipts or by incurring a somewhat greater most probable value of expected expenses. The diagrams below illustrate the foregoing assumptions.

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³Ibid., p. 182 n.
Professor Lange calls CC the "effective receipts" of a firm expecting most probable receipts of OA with a range of OB. This is so because CC represents subjectively certain receipts (zero range of possible outcomes) and represents the value of the most probable receipts that a firm would be willing to accept in exchange for some higher most probable value but subject to a certain amount of risk (OB). The amount necessary to compensate for the difference between complete certainty and the range of uncertainty, OB, is referred to as the risk premium and is equal to AC in Figure 1.

On the expenditure side, the firm's preferences may be viewed in a similar fashion. This is shown in Figure 2.

The indifference curves in the above case are such that III > II > I and represent expenditures. The Y axis measures most probable expenditure values while the X axis represents, again, the range of most probable expenditure values. As in the previous illustration, CC is the effective expenditure while AC is the risk premium. Effective profits therefore are calculated by deducting the risk premiums from all receipts and expenditures and it is assumed that the firm seeks to maximize the discounted value of
this effective profit. Lange now defines innovations as "such changes in production functions ... which make it possible for the firm to increase the discounted value of the maximum effective profit obtainable under given market conditions."¹

Employing the above analysis in an effort to determine the effects of innovations when utilized by oligopolists and oligopsonists raise some important questions of a policy nature. For example, is it sufficient to prevent trade unions from imposing work restrictions or limitations on the introduction of new processes in order to achieve a better allocation of resources?

Lange goes on to show that, under oligopsonistic conditions, firms prefer innovations which are "output-increasing" and at the same time "factor-neutral". He also argues that under oligopoly "output-neutral" and "factor-saving" innovations are preferred. These circumstances are then compared with the perfectly competitive case in which, for the industry at least, innovations are said to be "output-increasing" but may be either "output-increasing or decreasing" for the individual firm. With regard to factors, the net effect, however, may be in either direction in the perfectly competitive case.²

These propositions are easily proved by noticing, in the case of pure competition, how new firms are attracted to the industry as a result of increased discounted effective profits being available to firms already in the industry. With respect to oligopoly and oligopsony, the kinked demand

¹Ibid., p. 185.
²Ibid., p. 195.
and supply curves would lead to a lack of response on the part of the firm to changes in the marginal cost curves or changes in marginal productivities.

In any case, the assumption underlying Lange's analysis presupposes gains to entrepreneurs in terms of effective profit before innovations are adopted, or losses, if they are not adopted.

Labor, on the other hand, may either gain, lose, or remain unaffected as a result of a particular innovation. Where labor feels that a particular innovation will affect its welfare adversely, measures are taken to minimize the insecurity resulting from the adoption of the new techniques. Ober, for example, points out that trade union policy today seeks the "control, regulation, and alleviation of the effects of technological change."1 More specifically these policies have taken the following forms:

Where changes in occupations, skills and operations are involved, trade-unions have sought to control the jobs, no matter how much they may have been modified by technological change, through inclusion of the new jobs under union jurisdiction. It has now become a central feature of trade-union policy that without such control and recognized jurisdiction it is practically impossible to make an adjustment under collective bargaining. Along with control over the changing jobs there were developed policies for regulation of the rate of introduction of improvements so that displacement, if it cannot be prevented, may at least be reduced to a minimum. Closely related to regulation and control of the number of jobs and who should operate them are a group of policies which have been adopted in order to regulate job tenure. The aim of job-tenure regulation has been to establish some control over lay-off,

1Ober, H., Trade-Union Policy and Technological Change, Work Projects Administration, National Research Project, Report No. L-8, April, 1940, p. 7; See also Slichter, S.H., Union Policies and Industrial Management, Brookings Institution, Washington, D.C., 1941, pp. 201-261. Slichter uses a somewhat similar classification in describing trade union behavior - "obstruction", "competition", and "control".
dismissal, promotion, and re-employment. Where workers have been eliminated from an industry as a result of technological changes, trade-unions have sought and occasionally obtained dismissal compensation.¹

It is important to recognize how the major objectives of trade-unions concerning technological change -- control, regulate, alleviate -- compare with the objectives, one would suppose, the community would hold in this same regard. Fundamentally, the community would want to achieve these identical goals. Hence the governmental policy-maker would presumably utilize the alternative means available to achieve these ends. But would he use the same means employed by the trade unions? Obviously, there may be a conflict of interest between the community, the firm, and labor in their general preference for the utilization of particular means.

In the past it was generally assumed that a harmony of interest prevailed among the various groups concerned. The argument would invariably take the following form:

On an historical scale, the steady march of technical progress will be reflected, through the reduction of production costs all along the line, in a growth of both consumers' demand and entrepreneurs' profits -- a growth sufficient to assure such an expansion of production as will maintain the demand for labor in a volume which will at least offset the effects of increasing labor productivity.²

Today the weaknesses of the argument are quite apparent. An increase in the demand for goods, for example, need not result in the increased employment of labor but may simply lead to higher prices for goods or perhaps to an increased demand for other productive agents. Furthermore, unless

¹Ibid.

²Gourvitch, A., op. cit., p. 7.
investment increases or a shift in the consumption function takes place, full employment may not be maintained when the production function changes. These issues, however, partially explain the fears and doubts expressed by trade unions.

Even under a policy of full employment, specific labor groups have much to lose when technological change threatens to wipe out their skills. How then are the losses incurred by these groups to be weighed against the gains to be derived from a technological reorganization? As was shown earlier, Lange holds that entrepreneurs introduce new techniques with the expectation of increased profit. The community generally favors new techniques if as a result prices are reduced or new products become available which tend to increase satisfactions. Reder has attempted to deal with this problem and provides one possible solution:

It must be noted that if a reorganization can conceivably reduce a community's income, this possible loss must be weighed in the balance against any increases that might eventuate from it. And if the individuals in the community are unwilling to bear the risk of loss consequent upon a given reorganization, imposing the risk upon them will reduce welfare. Therefore, if welfare is to be a maximum, opportunities must be given for hedging risks, e.g., persons must be free ... to trade their own uncertain income (for a given period) for a guaranteed one (or guaranteed between certain limits) if they can find someone willing to make the trade.  

The community of course has a vital stake in seeing that the "trade" is consummated. By assuming a portion of the risks it may convince a

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particular group of workers to give up their particular skill or employment in favor of a new device or product. By refusing to assume any of the risk the community simply invites the worker to protect his own interest. Fundamentally, this partially explains the behavior of the Musicians Union, for example.

How can the community assume the risks growing out of technological change as they affect the worker? Several suggestions on this account have been made. They range from the simple responsibility of government to provide "jobs for all" to a more complex proposal involving joint responsibility of management as well as government. This latter proposal is of particular interest since it apparently reflects the official position of the CIO. The assumption of risk is also divided so that part of the gains accruing to the entrepreneur and the community are used to compensate labor directly for losses incurred. Philip Murray has suggested the following responsibility of the entrepreneur:

1. The workers to be displaced by technological changes should be reabsorbed in the regular labor turnover of the companies installing them.

2. The workers to be displaced should be notified at least six months in advance. From then until they are finally displaced they should be given opportunities to learn how to do other jobs where openings develop periodically. Where necessary, expert vocational guidance and training should be provided for those workers who cannot easily adjust themselves to other jobs.

3. Those workers for whom there are no openings when they are finally displaced, should be employed in some capacity until regular jobs open up for them. The wages paid these workers until they are placed on regular jobs should be charged to the original cost of the technological change.
4. Displaced workers who suffer a reduction of ten or more percent in their average daily earnings as a result of being absorbed on lower paying jobs than their original ones, should be paid a compensation of three percent of their earnings while in the service of the company. The job compensation payments should be charged to the cost of the technological change.

5. The displaced workers who, for various reasons, cannot be reabsorbed in other jobs should be paid a dismissal wage of ten percent of their earnings for a ten-year period, but not less than $500.00 to those workers with less than ten years of service. The dismissal wages shall be charged to the cost of the technological change.¹

This part of Murray's suggestions is to be incorporated in collective bargaining agreements and he further recommends that industry set aside sums of money each year for such "social contingencies". Recognizing, however, that inventions affecting whole industries, rather than individual firms, may require more extensive treatment, Murray goes on to recommend legislation regulating the introduction of innovations and the treatment of displaced workers.

1. It should be compulsory for industry to pay adequate dismissal wages to all workers who are displaced as the result of technological changes.

2. The Federal Government should conduct a large-scale vocational training program for displaced workers who are paid dismissal wages, so that they will be better adapted for other jobs in industry that they might be able to secure, when their dismissal wages are exhausted. It is essential that labor should participate in the administration of such a vocational training.

3. In addition to compulsory dismissal wages, other measures designed to have industry immediately reabsorb workers displaced by technological changes should be adopted.¹

The foregoing scheme can be criticized on several grounds. On the positive side, the entrepreneurs' responsibility can be justified, since functionally he attracts labor to his firm by offering lucrative employment for specialized skills. Should he eventually change his mind about the kind and number of workers he wishes to employ, (i.e. as a result of a new invention becoming rather profitable) individuals making investments in specific skills at the behest of the employer will now be forced to liquidate their skills. Yet society has a vital interest in economic progress, and negatively, Murray's program can be criticized for the obstacles it places in the way of entrepreneurial decisions with respect to the introduction of innovations.

Furthermore there is an implicit denial in the proposal of any responsibility on the part of labor. If, for example, as a result of a wage increase obtained through trade union pressure, machinery becomes relatively cheaper than labor and the entrepreneur prefers to substitute machines for men, should he still be required to compensate his displaced employees?

More important perhaps is the question involving the "incidence" of Murray's proposal. There seems to be a rather naive notion that the employer will bear the additional expense. Realistically, the risk premium will probably be shifted forward to consumers in the form of higher prices, backward to the workers in the plant, and perhaps the

¹Ibid., p. 561.
employer will bear part of the burden as well. In the event that the employer bears part of the burden, it may manifest itself in the form of overly cautious risk-taking with regard to the introduction of innovations. For as Lange pointed out, the expectation of increased profits provides the incentive for reorganizations, and charging the cost of displacement off in the fashion suggested by the CIO may reduce that incentive.

Finally, any attempt to reduce labor mobility to the environs of a single plant or firm can only accentuate the problem of resource allocation.

Since the cost of technological change can be borne in several ways, i.e., by the employer, by the workers, or by society as a whole, it remains to be seen what advantages there are in shifting the cost to any one of the groups referred to above.

In the case of the employer, he is primarily the "risk-taker" in a capitalist society. He stands to gain most if the reorganization he decides to make proves successful. If the reorganization is not successful he incurs losses but in any case all decisions made are his own. Hence it may be argued that all costs attached to the introduction of innovations should be carried by the individual making such decisions.

In the case of the worker, there are certain risks he undertakes voluntarily. The selection of a particular job or occupation is his own. He has alternative forms of employment (in a full employment economy) from which he can make a selection. Bearing the costs of technological change, provided full employment is an accepted policy of government, merely means
changing from one employment where his productivity has been reduced, to some other employment where he can make a larger contribution.

There are certain difficulties connected with the employee's assumption of these costs, however. The most obvious, of course, involves the alternative courses of action open to him. That is to say, he may choose to shift these costs to society by preventing the introduction of the innovation, thereby denying society the advantages that might have been achieved with the new product or device. But shifting these costs to the community at large may simply involve an act of desperation. There are obstacles attached to occupational transfers, and the individual worker might very well make the move if someone paid the cost of moving. These costs of moving involve expenditures of various types: retraining, loss of income while making the transfer, actual physical movement to a new community and the costs thereby incurred (monetary, social and psychological).

Reder, in discussing the problem, provides the following argument and solution:

As our society is at present organized, everyone is compelled, willy-nilly, to become an entrepreneur — an entrepreneur in his own talents. Preparing oneself for an occupation involves undertaking an investment which can fare badly for reasons quite apart from individual merit, e.g., change in tastes and techniques. And if the investment turns out to have been unwise, the result is likely to be a ruined career and perhaps a wasted life. It is no wonder that there should be a demand for guaranteeing people jobs in their own occupation.

However, there is really no need to do this in order to grant the individual security. What we would suggest is that persons attached to industries or occupations that are overcrowded, be offered opportunities to
re-train themselves for fields in need of additional personnel. At government expense, they would be paid the current reward of their current occupation while re-training. Thus unemployment would not involve any personal loss to the unemployed or diminution in expenditure on products.

Those who wished to stay at their old occupation would, of course, be free to do so, but they would have to accept the consequences. If more than the optimum number chose to leave an occupation, the government's re-training subsidy would be given mainly to the younger workers, since the investment in their talents would be more productive than in the case of the older workers. Conversely, workers too old to re-train advantageously could be subsidized to stay at their jobs.

Such a scheme as this would obviate much of the fear of unemployment without destroying the mobility of the labor force or wasting its power in performing tasks less productive than it is able.¹

The superiority of Rader's approach can be seen at once. Apart from the difficulties to be encountered at the bargaining table, the allocative effects of Murray's proposal, if it were, in fact, appended to all trade agreements, certainly would lead to a lower level of output for any given level of inputs.

Effects of Murray's proposal are shown in Figure 3. The ordinate represents quantity of labor, abscissa represents quantity of capital. Output X is shown as an iso-quant and it is assumed that the firm chooses to produce that quantity. The slope of the expenditure line AB represents the initial price ratio of labor to capital, hence the firm would employ OE units of labor and OB units of capital in order to produce X units of output.

Suppose now that the firm decides to utilize more capital (machinery) because

¹Rader, H.W., op. cit., p. 203.
an innovation has resulted in a drastic reduction in the price of machines relative to labor. The change in the price ratio is shown as AC. In order to continue producing output X the firm would reduce its expenditures on both labor and capital, the new expenditure line being Li (parallel to AC). The quantity of labor purchased would fall from Oi to OG and the quantity of capital employed would increase from OH to OJ.

Fig. 3. Graphic Analysis Of The "Murray Proposal" to Alleviate Technological Unemployment.

Under Murray's proposal the price of capital would not be permitted to fall as far as it otherwise would since any unemployment resulting from capital acquisitions would have to be added to the cost of the additional
capital. That is to say the price of capital instead of falling from AB to AC would fall only from AB to AD. Expenditure on labor and capital would therefore fall to EM (parallel to AD) and hence OF units of labor and OI units of capital would be employed. Clearly the amount of labor unemployed would be less under the Murray proposal but at the expense of reduced technological change. It is also quite possible that no technological change would take place at all if the amount to be set aside for social contingencies is just enough to offset the price advantage of the relatively cheaper machinery without the contingency added.

Labor Immobility

One weakness of Reder's proposed solution involves the question of geographical labor mobility. Technological improvements may involve the loss of job opportunities in one area and the opening up of job opportunities in some other area. There are several ways of dealing with this problem. As Hoover has pointed out:

interoccupational mobility is often a substitute for migration. Labor left unemployed by the closing of one type of plant may be employed by a new industry in the old location rather than by the old type of industry in a new location. The need for migration is greatly lessened if local labor supplies are made more versatile, and this can be accomplished by training.\(^1\)

However, the problem is somewhat more complex than one would gather from the above argument for increased versatility. Basically the discussion

turns on the following question: Should job opportunities be provided somehow for people seeking employment in an area or should people be encouraged to move to areas experiencing a labor shortage? Either alternative can be justified with some force.

The case for encouraging migration rests on the argument that low living standards in an area mark it as an un-economic location for the number of people it has; the fact that better employment is available elsewhere shows that some of those people would be not only better off but more useful elsewhere and should move.1

In opposition to the above alternative there are arguments to be made in favor of "bringing jobs to people". The following list does not exhaust all of the possible effects.

1. The magnitude of the movement may be much greater than superficial appearances may warrant since the movement of a large enterprise out of an area may affect workers in industries dependent on that enterprise for business and other establishments ministering to the needs of the initially displaced workers.

2. If the more productive individuals form the bulk of the emigrants the remainder of the community may soon become a new depressed area.

3. There are social and political effects that need to be taken into account when a populace becomes extremely mobile.2

For the policy-maker the dilemma is not an insuperable one. Subsidizing industries to move into areas where an excess supply of labor exists should be based on purely economic grounds. Where an area requires a temporary subsidy because it has certain "threshold characteristics",

1Ibid., p. 273.

2Ibid., pp. 274-277.
the infant industries argument may hold, and jobs should be provided or brought to people, but only if the developmental potential justifies such action. Fundamentally, however, encouraging the movement of individuals by offering to pay their costs of movement and retraining remains the sounder policy. As an important adjunct, specific policies designed to meet the social and political consequences of increased mobility also appear warranted. But in any case, these policies have yet to be applied for purposes other than the consequences of mobility, namely, improved housing, wholesome family life, religious and recreational facilities, etc.

Apart from the impact of technology on labor mobility, there are other considerations to be taken into account. The divergence between the number of available jobs in a particular area and the number of job seekers (assuming full employment in the rest of the economy) may be a function of trade union behavior, existing wage structure in the market, and non-economic rigidities, i.e., location of relatives and friends, investment in a home, inertia, etc.

Where this divergence grows out of restrictive practices on the part of trade unions or the activities of monopsonistic employers, obviously encouraging the movement of workers out of the area simply accentuates the misallocation of resources. This illustration is shown in Figure 4.

Assume a given amount of input (labor) to be divided in such a fashion between industries I and II, so that OA units of output are produced by Industry I and OB units of output are produced by Industry II. Further assume that this division of output (and labor) corresponds to the preferences of consumers. Now suppose as a result of trade union restriction, Industry I is only able to obtain enough labor to produce OC units of output, and the excess
labor finds employment in Industry II causing output there to increase to OD units (due to a fall in wages reducing costs sufficiently to encourage greater output). This new combination of outputs fails to provide the consumer with the same level of satisfaction which prevailed prior to the advent of trade union restrictions. Another possibility, of course, would be the existence of unemployment in the area surrounding Industry I if labor were not sufficiently mobile to move to Industry II.

Public policies designed to prevent such restriction on the part of trade unions (or monopsonistic employers) has taken the form of banning the closed shop, featherbedding, and so on. These regulations, however, are not adequate when the same results are achieved by trade unions when they raise wages high enough to cause a decline in employment in a particular industry. Lerner has made a proposal which has a double objective: one is designed to deal with misallocations of labor, the other to prevent inflationary wage
pressures. For the moment, we shall consider the proposal only in terms of its former objective. Its usefulness as an anti-inflationary device will be considered in a later section.

Lerner suggests the establishment of specific geographical areas as labor markets. For each area the percentage of unemployed workers will then be determined and compared with the relative unemployment existing in the economy as a whole. Lerner then assumes that workers will shift from one area to another if the wage differentials are adjusted to attract workers from surplus to deficit areas. A concrete illustration will clarify the mechanism he wishes to use. This is shown in Figure 5.

Fig. 5. Percentage Unemployed, U.S. Average Compared With Three Arbitrary Geographical Areas.

Assume the percentage unemployed for the U.S. as a whole to be five percent of the total labor force. Area 1 has an unemployment percentage of $2\frac{1}{2}$ percent of its total labor force. Area 2 has ten percent of its labor force unemployed and Area 3 has five percent unemployed.
According to Lerner these figures would indicate the following: in Area 2 wages are apparently too high and consequently workers are being attracted to the area but are not able to find employment. In Area 1 there is a scarcity of labor because wages are too low. Area 3's wage structure seems to be in accord with the remainder of the economy. As a proposed remedy Lerner suggests that wage control be taken out of the hands of both unions and employers and instead all wages should be adjusted according to a simple rule. Wages normally are to increase one percent every four months period (three percent per year) except in those areas where unemployment is at least twice the United States average. In Area 2 for example no wage increases would be permitted. Where unemployment is at least half the United States average wages will be permitted to increase by two percent each four month period (six percent per year).

It can be readily seen that labor will tend to flow from Area 2 to Area 1 since no wage increases are occurring in the surplus area while twice the wage increase for the economy as a whole is being permitted in the labor deficit areas. Although in principle it is not difficult to agree with Lerner's proposal, particularly in view of its anti-inflationary virtues, there are major shortcomings in the plan as an allocative device. Reynolds provides some rather interesting considerations.

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1See: Lerner, A.P., "An Integrated Full Employment Policy", International Postwar Problems, vol. 3, January 1946, p. 127. Although only a "hint" is provided of this scheme in this article, Lerner elaborated on the idea in a private discussion with the author.
The relation between geographical wage differentials and labor mobility is difficult to evaluate, since wage differences usually occur along with differences in job opportunities and other factors. A few things, however, can perhaps be said. First, high wages in an area do not seem to have very great attractive power unless accompanied by job openings; and while we might expect the two to occur together, this will not always be the case. Second, most people who have jobs are sufficiently attached to their home communities so that they have little interest in jobs elsewhere, even at considerably higher wages. Interest in opportunities elsewhere is usually awakened by the loss of employment at home or by some personal or family disturbance. Third, even when the person is predisposed toward movement for one reason or another, his movement is about as likely to follow lines of personal contact as it is to follow wage contour lines.

It should be noted also that geographical mobility is quite selective with respect to personal and occupational characteristics. Mobility is highest among the young, single, and unattached; it is reduced by age, family responsibilities, and home ownership. Among occupational groups, professional people are much more mobile than any others, followed by executives and other white-collar workers. Skilled manual workers appear to be somewhat more mobile than the semi-skilled and unskilled.

It would appear that supplementary techniques need to be used in achieving a reasonable fluidity in labor markets. Much of the thinking on this subject is somewhat clouded by a "less-than-full employment-psychosis". The war experience, in which the number of job opportunities exceeded the number of job seekers provides an illuminating lesson. Apparently with sufficient jobs available, wage differentials do work fairly well as an allocative device. This is further substantiated when coupled with the practice used by many corporations during World War II of paying for the transportation of the worker and his family as well as providing adequate housing.

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Only recently has the BLS made data dealing with regional wage rate differentials available. The statistics, however, are not complete and provide information for irregular time intervals. Even so, it is possible to show the bare outlines of a relationship which has been subject to much speculation. Table 1 and Figure 6 indicate the broad allocative effects of changes in wage rates and wage rate differentials on movements in the labor force. Of particular interest are the data relating to the depression period. Although net migration is somewhat less marked during 1930-40, wage differences between areas seem to coincide with the direction of movements in the labor force. Additional data, not yet available, however, will be required before the exact nature of the relationship can be determined.

Table 1. Median regional differences in occupational wage rates in manufacturing industries and net regional migrations, selected periods.

<table>
<thead>
<tr>
<th>REGION</th>
<th>1919</th>
<th>1920-30</th>
<th>1931-32</th>
<th>1930-40</th>
<th>1945-46</th>
<th>1940-43</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTHEAST</td>
<td>100</td>
<td>+1,466,000</td>
<td>100</td>
<td>-379,000</td>
<td>100</td>
<td>+27,100</td>
</tr>
<tr>
<td>MID-WEST</td>
<td>97</td>
<td>+762,000</td>
<td>97</td>
<td>-940,900</td>
<td>101</td>
<td>-284,900</td>
</tr>
<tr>
<td>SOUTH</td>
<td>87</td>
<td>-882,000</td>
<td>74</td>
<td>-102,900</td>
<td>85</td>
<td>-331,600</td>
</tr>
<tr>
<td>FAR WEST</td>
<td>115</td>
<td>+1,711,000</td>
<td>113</td>
<td>+1,020,000</td>
<td>115</td>
<td>+1,394,400</td>
</tr>
</tbody>
</table>


To what extent the practices of trade unions in restricting membership affect the allocation of labor adversely is still subject to much speculation. The magnitude of the effect, however, can only be determined by empirical investigation. It would not be surprising if some of these restrictions were consistent with the kind of allocation society would prefer, but fundamentally, the arbitrary selection which high initiation fees, for example, impose on the labor market is not in accord with the selection that would obtain in the absence of such fees. It would, therefore, seem that a ceiling on initiation fees would remove one further obstacle to mobility.

Frequently, the employer makes a contribution to worker immobility. The growing interest among employers and industrial psychologists in the field of "human relations" may eventually add still another barrier to labor mobility. The desire on the part of many firms to attract and hold the "loyalty" of workers through the use of pension schemes and other benefits may discourage the movement of workers to jobs involving a better utilization of their skills. Hence, from a policy standpoint, the encouragement of uniformity and the transferability of accumulated pension benefits among firms would lead to a superior allocation of labor. It may even be desirable to prevent private pension schemes altogether by substituting some Federal scheme. A tax on pension funds accumulated, for example, would easily discourage their introduction by firms without involving direct governmental prohibitions.

It is interesting to note at this point the frequent conflicts which occur between the desire on the part of the community for increased security and the desire for increased efficiency. The latter, of course, involves
Fig. 6. Relation Between Regional Wage Rate Differences and Net Regional Migration, Selected Periods
greater mobility. In order to satisfy the desire for security, the community may be compelled to tolerate some waste of labor resources.

Non-Economic "Codes of Conduct"

One frequently overlooked aspect of the labor problem which the policy-maker can do little about involves the "ethics" of the business community and its general acceptance by other segments of society. The devious methods used by businessmen to enhance their incomes or the criminal practices used by both businessmen and labor leaders to gain power and prestige are part of our contemporary culture pattern.

Although primarily an area of investigation for the sociologist, such forms of behavior raise important economic questions. In order to encourage a trade union to give up certain restrictive practices or strategic monopoly positions in labor markets, welfare economists advocate the use of the "compensation principle". Should the element of "criminality" be used as a criterion in determining whether a monopoly group should be compensated? Under what circumstances should monopoly positions be expropriated without compensation? Suppose a monopoly group asks for too large a bribe as its price for giving up special privileges — a not too unreasonable assumption, given current standards of business morality?

White-collar crime and activities bordering on criminality, i.e., pulling a shrewd deal, occur frequently among businessmen in our society.

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1White-collar crime is defined as "a violation of criminal law by a person of the upper socio-economic class in the course of his occupational activities". See: Sutherland, E.H., "Crime and Business", Annals of the American Academy of Political and Social Science, vol. 217, September, 1941, pp. 112-118.
Many of these practices have been adopted by other segments of our society.

As one observer has pointed out:

The same ideals of competitive avarice seeped down to labor also. It has been observed that the competitive ideal has been to sell as large a volume as possible of all poorest marketable goods at the highest possible price. Conservative and powerful labor unions have accepted this same doctrine in terms of the shortest possible work day, with the greatest permissible amount of loafing, at the highest possible wages. But this is not the worst of the offenses of labor. As plutocrats sold out their own investors and stripped them of their investments, so dishonest labor organizers have extorted or confiscated funds from their own unions. They have held up employers with threats of strikes and have at times, even furnished strike-breakers against union labor. They 'got theirs', as the plutocrats did when they robbed a sound operating company of its earnings through the holding company technique.¹

Among trade unions, not only the leadership, but rank and file as well, adopt the attitude of "let's get our share before somebody else tips the gravy boat". And invariably ethical considerations are based solely on precedent, i.e. has a similar technique been used successfully elsewhere? This, of course, is not surprising in view of the competitive nature of modern society. But dealing with the problem is somewhat more complicated than one would at first suppose. Eliminating the racketeer or the dishonest leader in trade unions is not an easy matter when the membership willingly tolerates such guidance as long as the rank and file "get their cut as well". Many of the issues raised previously, such as increased mobility, the application of new innovations, and so on, presuppose a degree of flexibility in accepting new trade union members which in some important cases does not

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exist. Hence, as a matter of policy these restraints on trade union entry must be removed.¹

The attitude of "keeping up with the Joneses" also has its manifestation in the labor market. Union leaders are constantly under pressure to obtain for their own members a contract which compares favorably with that secured by a close rival. This partially explains the phenomenon of "wage leadership" found during contract re-negotiation periods each year. And also accounts for wage patterns spreading rapidly from industry to industry. From the standpoint of inflationary wage increases, it is necessary to keep this behavior pattern in mind. Moreover, policy recommendations which assume that it is only necessary to coordinate wage changes, within the structure of a centralized trade union body, for responsible wage policy to take place, fail to recognize the internal contradictions governing the actions of the labor movement.

The theory of the firm, in which entrepreneurs ostensibly seek to maximize profit, has recently been applied to trade unions. Dunlop, for example, tries to explain trade union behavior in terms of "maximizing the wage bill".² Fellner uses the maximization principle along the lines of bilateral monopoly in an effort to describe the bargaining process.³

¹See infra, p. 229.


Although the approach is useful as a first approximation, significant non-economic elements (lust for power, inertia, uncertainty, complacency, etc.) are not incorporated in the decision-making scheme. Consequently, the policy-maker will frequently be confronted with situations in which it is not possible to bribe a monopolist out of a position of special advantage merely by offering compensations of a pecuniary nature. For this reason, it may be necessary for society to compel monopolists to accept a monetary settlement or suffer either outright expropriation or a legal prohibition against certain forms of action.

In a free enterprise system neither of the above alternatives may be acceptable. A modified compensation technique, however, may provide a reasonable compromise. The form of compensation can be either a direct subsidy or an expenditure which indirectly affects the monopolist by providing him with less of an incentive to maintain his position of exclusion. The former method suffers from the limitations discussed above; the latter will not completely eliminate restriction but has the advantage of minimizing such behavior.

A policy of full employment with a relatively stable price level, for example, may lessen the fears and uncertainties of individuals and groups sufficiently to obviate the necessity of their engaging in restrictive practices. But again, it would be dangerous to generalize as to the benefits of such a program since there are always workers and entrepreneurs in specific industries, subject to technological displacement and changes in consumer

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1See infra., p. 247.
preferences, who are threatened with the loss of their investment in plant or skill. Admittedly, the availability of employment or new forms of investment would tend to lessen their discomfort, but earnings elsewhere may not be as high as their former positions provided. The status of the new occupation may not afford the esteem and privileges attached to the old line of endeavor. Hence the problem of removing monopoly activities in both product and factor markets is simply one of degree.

In a "free", democratic enterprise system people are not willing to pay the price required for the complete eradication of restriction. Yet the greatest danger lies in society's willingness to follow the path of least resistance — "to pluck the feathers of monopoly where the squawk is least". In the past, this usually applied to trade unions. If the problem of monopoly is handled in this manner, we can hope for periodic retaliatory brawls, with each group seeking to subdue its foremost opponent, but offering no solution of a relatively permanent nature. Retaliation then becomes the most fruitful "code of conduct" acceptable to society.

Cyclical Insecurity

Periodic fluctuations in economic activity encourage all groups to erect barriers designed to prevent the flow of poverty and insecurity from spilling over into their chosen fields of endeavor. Although such barriers are effective when constructed by relatively few groups, success cannot be achieved when all groups engage in similar activity.

The economic organism is an extremely "fissionable" and unstable one. Chain reactions, once a disturbance affects the economy, are set off with a
myriad of internal shocks having their effects literally "in all directions at once". Were it not for the fact that some of the components of the economy are so large (in the organizational sense) and make adjustment rather slowly, our economic explosions would undoubtedly be more frequent and perhaps more devastating than past experience would indicate. Nevertheless, it is important to show how these internal shocks tend to perpetuate themselves and to recognize the importance of preventing the initial disturbances from first, leading either to inflation or deflation and second, causing the internal components to react in a manner consistent with their special interests.

A few remarks perhaps should be made about the inherent instability of the economic organism. Strictly speaking, a disturbance can be classified as either exogenous or endogenous. Moreover, it has been shown that cyclical instability may, for example, arise merely as a result of a lagged relationship existing between the savings and investment functions.\(^1\) The disturbances noted above, therefore, accentuate the oscillations and also affect the allocation of resources as well. Hence cyclical fluctuations, from the standpoint of labor policy, need to be considered in terms of the resource problem as well as the income problem.

The resource problem turns largely on the techniques utilized by trade unions, business firms and government for the purpose of meeting the exigencies growing out of cyclical instability. This then is what we mean by "adaptation". It implies conforming with rather than changing the economic

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climate prevailing at any particular moment. By adaptation we also mean that each segment of the economy anticipates the kind of role it will play in a particular phase of the cycle and manifests its behavior either in the form of demands to be made on other groups, e.g. trade unions demanding increases in wage rates to compensate for an increase in the cost of living, or overt acts designed to protect the group, e.g. restriction of output on the part of building trades unions in order to safeguard their investment in occupational skill.

In the discussion that follows we shall investigate the problem of cyclical adaptation from the standpoint of the trade union, the business firm and the government as it relates to the question of labor policy. The process of adaptation takes a variety of forms but fundamentally falls into two broad categories: (1) **Income stabilization**; (2) **Employment stabilization**.

**Income stabilization**: Perhaps one of the major causes of concern during fluctuations in business activity is the uncertainty with which individuals view their future earnings. Labor unions and businessmen alike attempt to minimize this uncertainty by regularizing the flow of income to themselves. Hence, they resist any changes which may affect the regularity of their "income flow". Even the public (the government) has some notion as to the magnitude of the flow to be guaranteed individual workers, and legislation making such guarantees has been enacted.

In order to maintain these flows in the face of economic instability, trade unions, public agencies and employers use seven principal criteria in evaluating a change in wages. Slichter lists the following:
1. The minimum necessities of workers.
2. Changes in the cost of living.
3. The maintenance of take-home pay in the face of reductions in hours.
4. Changes in the productivity of labor.
5. The ability (or inability) of the employer to pay.
6. The alleged effect of higher or lower wages upon consumer purchasing power and employment.
7. The wages paid in other industries or places.

Since the first represents a basis upon which expressed public policy is founded, it will be useful to analyze that criterion in terms of the benchmarks established earlier, i.e. from the point of view of the income problem and the resource problem. Although minimum wage legislation has been generally accepted by the American people as a particularly desirable method of establishing a lower limit to the earnings of workers, from the economist's point of view it represents only one possible technique among several alternatives. As such it must be regarded as somewhat inferior, since there are undesirable allocative effects inherent in the technique.

In principle, of course, the desire on the part of the public to ensure earnings for the worker, sufficient to meet his minimal necessities of life, can be fulfilled only by considering the effect on employment as well as the wage rate. As Slichter has pointed out:

It is obvious, however, that when the community says that a worker may not be paid less than a given amount, the community is in effect saying that anyone who is not worth that amount shall be regarded as unemployable.2

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2 Ibid., p. 11.
Although there is a great deal of truth in this assertion, we must first clarify an assumption implicit in Slichter's argument. Clearly it assumes that all labor markets are so constituted that every worker automatically receives a wage equal to his value contribution anticipated by the purchaser of his services.

Evidently Slichter fails to realize that minimum wage laws have been framed not only to guarantee minimal rates of pay (which they obviously cannot do) but also for the purpose of preventing exploitation. For this latter purpose it may claim some justification, but here too, there are better alternatives.

For the moment we shall assume that no exploitation prevails in our labor markets. What then are the objections to using minimum budgets in the establishment of basic rates of pay? It should be obvious that a rate of pay does not establish a worker's income unless account is also taken of the number of hours worked. Since minimum wage legislation merely sets a lower limit to the hourly rate, the worker's actual earnings are still determined at the employer's option. That is to say, since only one of the components of earnings, namely, hourly rates, is controlled, no lower limit to earnings can be determined by such legislation. The use of minimum budgets in the establishment of basic rates of pay therefore misses completely the difference between "take home pay" and the hourly rate of pay.

Perhaps more fundamental are the allocative effects of such legal minima. Since all occupations and industries are not covered by such legislation, the imposition of a rate in excess of the value of the
worker's services to the employer will result in the employment of fewer workers in the specific firm or industry affected. In turn, workers who are not sufficiently productive to "pay their own way" at the higher wage rate will find their services no longer required in the regulated industry and therefore will need to find employment in the unregulated industries at lower rates of pay or simply remain unemployed.

Stigler, in discussing the problem, raises the following question: "(1) Does such legislation diminish poverty? (2) Are there efficient alternatives?"¹

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It is rather revealing to compare Stigler's approach with that of Slichter. The latter, for example, makes the following generalization:

The community must realize that in setting the standard of fitness for employees, it is limiting the volume of employment. The community must decide whether it is better that some workers who cannot command higher pay be employed at very low wages, or whether they should not be employed at all but supported by their relatives or by the community.²

On the other hand, Stigler, in discussing the effects of a legal minimum wage on resource allocation, agrees fundamentally with the position taken by Slichter, as the argument applies to a purely competitive market. But at this point Stigler makes it quite clear that under other circumstances minimum wage legislation can achieve desirable objectives.

If an employer has a significant degree of control over the wage rate he pays for a given quality of labor, a skillfully-set minimum wage may increase his employment and wage rate and, because the wage is brought closer to the value of the marginal product, at the same time increase aggregate output.\(^1\)

Recognizing the possibility of a minimum wage preventing exploitation in particular labor markets, however, is not, according to Stigler, sufficient to justify its use. Its major disadvantage is the accuracy with which it needs to be computed and applied according to the requirements of different firms, industries, geographical regions, occupations and even individual workers within a single occupation.\(^2\)

Moreover, as the investigations in the field of agricultural policy have indicated, "manipulation of individual prices is neither an efficient nor an equitable device for changing the distribution of personal income".\(^3\)

Schultz and others, for example, in discussing the effects of the "parity principle", as applied to agriculture, have correctly emphasized this point. Minimum wage legislation is obviously the application of the "parity principle" to labor markets.\(^4\) Much of the attraction of full employment as a framework within which labor allocations function

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\(^1\)Stigler, G.J., *op. cit.*, p. 361.

\(^2\)Ibid.

\(^3\)Ibid., p. 362.

\(^4\)Although the parity principle, as defined by law, is strictly analogous to the sliding wage scale, adjusted for changes in the cost of living, it may be also considered in terms of its stated objective. The objective of the parity principle is to deal with the farm income problem via the price mechanism.
effectively is vitiated, therefore, when increases in minimum wages are realized. The alternatives to minimum wage legislation as a method of guaranteeing income will be discussed in a later section.

Wage increases based on the criterion of increases in the cost of living are frequently used by trade unions in negotiating new contracts. As a general proposition, it seems attractive to unorganized workers as well as trade union members. Moreover, particular trade union leaders view the problem in the micro-sense. They are not able to judge the effects of their own wage demands on the labor market or on the economy as a whole. Hence, contributing to inflation appears as a rather remote consequence of their demands. The proposition is also frequently supported by employers, and some governments have incorporated the principle in their public policy pronouncements, e.g., the Canadian experience during the last war. Oddly enough, the supporters of this criterion are seldom willing to reverse the argument. Yet the futility of approaching the problem of maintaining the purchasing power of wages in the face of rising prices can only be exposed by tracing the operation of the variables in the downward direction. The flexible wage argument is analyzed by Lerner as follows:

If wages were as flexible as the other prices, the unemployment of the other factors would not be alleviated by the fall in their prices. All prices would fall together indefinitely until something happened to change the underlying conditions - such as a fall in the rate of interest (which might be the result of lower prices) if this reduction were enough to offset the aggravating effect of falling prices both on the rate of interest and on the rate of investment
and consumption at any given rate of interest.\(^1\)

Increases in wages as a method of counteracting rising living costs can be analysed by reversing Lerner's argument or by considering the effects of such a policy in terms of the demand for commodities. At full employment, a rising price level manifests an excess demand for commodities in relation to forthcoming supplies. Since the rate at which consumers' commodities are coming onto the market cannot be accelerated unless (a) an expansion occurs in the labor force, or (b) resources are diverted from investment goods to consumption goods, rising wages tend to increase this excess demand. As a consequence, the price level will continue to rise leaving the wage earner no better off than he was before.

In addition, a rising wage level has its impact on the anticipations of businessmen. With costs mounting, firms have every incentive to produce for inventory, knowing that their wage bill, for example, will be still higher in the future. Moreover, with prices rising rapidly, they have the further expectation of selling these accumulated stocks at even higher prices in the future. Such behavior obviously accelerates the entire process.

It is also necessary to note that a rising wage level stems not only from the pressures exerted by trade unions but also from employers as well. With fully employed resources and rapidly rising prices, competition among firms for labor will tend to accelerate the rate at which wages are increasing. However, since the rate of physical output is at its maximum, real wages cannot be increased.

\(^1\)Lerner, A.P., *op. cit.*, p. 272 n.
Figure 7 illustrates the foregoing discussion.

Let $X$ represent physical output, $N$ = number of workers, $V$ = real wages, $W_0$ = money wages determined autonomously, $P$ = price level, $Y$ = national income expressed in money terms, $D$ = demand for labor.

Equilibrium of the system at full employment is shown by the solid line. $N_F$ represents the number of workers at full employment resulting in the corresponding physical output $X_F$. The price level is shown as $P_0$. An increase in wages from $W_0$ to $W_0'$ increases the price level from $P_0$ to $P_1$ and the national income rises from $Y$ to $Y'$. $V_F$, the real wage, remains unchanged. National income, $Y$, is defined as: $Y = PX = C + I + G$ where $C$ represents consumption, $I$ represents private investment and $G$ represents public investment.
Still another criterion used to justify an increase in wages is the notion that take-home pay should be maintained in the face of reductions in hours. Employers, on the other hand, counter this argument by demanding increasing productivity on the part of their labor force as a necessary condition for maintaining take-home pay. In one sense, the last three criteria are all interrelated in terms of public wage policy. As Slichter has pointed out:

These facts point to the need of a national wage policy which would treat a rising cost of living as a reason for temporarily permitting no wage increases except for certain special reasons, such as the correction of inequalities or the attraction of workers into certain industries where lagging production was creating a 'bottle neck'. However, neither employers nor unions would tolerate the enforcement of such a policy in time of peace. Consequently, if increases in the cost of living are not to cause upward wage-price spirals, employers and unions must prevent them by increasing output per man-hour.  

The problem of wages, prices and employment will be considered in greater detail in a later section. For the present it may simply serve to illustrate the desire for income stabilization growing out of cyclical insecurity.

Inflation, apart from its effects on particular workers and firms, generally shifts income from wages to profits. That is to say, profits tend to increase more rapidly than wages. Workers usually demand higher wages on such occasions, pointing to the employer's ability to pay. As a general proposition, the argument, of course, is quite irrelevant. A case can be made for reduced profits as an anti-inflationary device, but this does not

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1Slichter, S.H., *op. cit.*, p. 16.
mean that the profits taken from firms should be given to labor in the form of higher wages. High profits, once full employment has been achieved, enable the more fortunate firms to bid up the prices of productive agents, including labor, thereby contributing to further price rises.

If a portion of these profits were transferred to wage earners, several possibilities arise: (a) expectation of further reductions in profits may lead businessmen to reduce investment, thereby leading to deflation; (b) with no reduction in investment, income would simply be transferred from profit receivers to wage earners but the total quantity of consumers' goods would remain unchanged. Hence, prices would rise, since no additional quantities of consumers' goods would be forthcoming, but expenditures on such goods would be somewhat greater than was previously the case, owing to the greater marginal propensity to consume of wage earners.

By and large, however, the "ability to pay" argument for wage increases is based on the naive notion that increases in wages come out of profits. The experience of trade unions during the up-swing of the cycle would seem to confirm the "higher wages out of profits" notion only because of the relative ease with which wage increases are obtained. This error, of course, is frequently made by labor economists too. Most of the literature in the field of labor economics tacitly assumes that real wages can be increased by trade unions by the simple device of effective collective bargaining. Although this may be true for a particular occupation or industry temporarily, its truth needs to be
substantiated as a general proposition, Dunlop, for example, points out "that a part of the rise in real wage-rates observed during the up-swing could be accounted for by a fall in the 'degree of monopoly'."¹ Kalecki in his investigation of the significant factors determining the share of the national income going to wage earners reaches the same conclusion.²

At this point it is also useful to discuss the implications of expressed public policy in the general area of collective bargaining. Although much of the early New Deal legislation, encouraging trade union organization, was based perhaps as much on social and political grounds as it was on purely economic criteria, it is useful to investigate the effects of such a policy. Legitimate doubts may be expressed as to the ability of trade unions to increase real wages by raising money wages, but perhaps more important are the positive allocative effects growing out of the greater equality of bargaining power between employer and employee.

The great advantage of a competitive market is that it results in a pattern of resource allocation which is consistent with consumer's preferences. When markets are imperfect, that is to say, when various degrees of monopoly prevail among firms, this allocation is not achieved.

This, of course, is also the case when monopsonistic firms buy their labor in unorganized labor markets or where some industries are organized while others are not. Allen and Brownlee make the following generalization:

A private producer will be maximizing his profits when his marginal revenue from output is equal to his marginal cost of output. However, it is only under perfect competition that marginal revenue and price of the product will be identical. It is only under conditions where the price of the product is equal to marginal revenue (and the price of the resource is equal to its marginal cost) that equating marginal revenue and marginal cost of output will equate also the value of the marginal product of an increment of a resource and the price of that resource. Thus, if the product-demand schedules and resource-supply schedules that face the firm are not perfectly elastic, product prices will not be equal to marginal revenue of output and factor prices will not be equal to marginal cost of input. Unless the elasticities of the product-demand schedules facing every firm are exactly the same and the elasticities of the factor-supply schedules are also equal for every firm, the best allocation of resources will not result from each firm maximizing its profits.1

The "ability to pay" argument therefore can only be used by organized workers who, through enabling legislation, have been able to meet employers on equal terms. It should be noted, however, that from the standpoint of resource allocation, the existence of strong trade unions may result in economically desirable effects.

But nothing has been said about the ability of a trade union to increase money wages when its position is sufficiently strong to force an employer to meet an increased wage demand. Here the employer has the alternative of offering the union a higher money wage and compensating for

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1Allen and Brownlee, op. cit., p. 114. The authors present the argument graphically in the following fashion:

(Continued)
the added wage expense by raising the price of the commodity being sold. This obviously does not leave the employer as well off as he was before.

Effects of Monopoly on Resource Allocation

The competitive demand for A in X is \( f_a P_x \) while the competitive demand for A in Y is \( \varphi_a P_y \), where \( f_a \) is the marginal physical product of A in X, \( \varphi_a \) is the marginal physical product of A in Y, \( P_x \) is the price of X, and \( P_y \) is the price of Y.

When X is monoplisized (\( f_a \) remaining unchanged), the demand for A in X becomes \( f_a P_X (1 - \frac{\eta_x}{n_x}) \) where \( P_X (1 - \frac{\eta_x}{n_x}) \) is the marginal revenue from X and \( \eta_x \) is the elasticity of demand for X. Similarly, the monoplistic demand for A in Y is \( \varphi_a P_Y (1 - \frac{\eta_y}{n_y}) \) is the marginal revenue for Y and \( \eta_y \) is the elasticity of demand for Y.

\[ f_a P_X (1 - \frac{\eta_x}{n_x}) = \varphi_a P_Y (1 - \frac{\eta_y}{n_y}) \] at A1 only if \( \eta_x = \eta_y \). (p. 146)
since the new price is not of his own choosing but merely an adjustment which he prefers to make in order to maximize profits, given new cost conditions.

How much pressure can the union exert if the leaders suspect that an employer is able to increase wages because rather high profits are being earned? Clearly the case at hand manifests many of the characteristics of bilateral monopoly and previous investigators have attempted to deal with the problem on this basis. The argument still remains unconvincing, in spite of the many attempts that have been made to provide a solution. It is important, therefore, to trace the argument to its present status, noting particularly how each approach is formulated essentially in micro-static terms. The contributions of Hicks, Bronfenbrenner, Dunlop and Fellner will be used for purposes of illustration.

Hicks attacks the problem by comparing the relative costs to the employer of resisting a wage demand with the costs to be incurred by giving in to the union. According to Hicks: "If resistance appears less costly than concession, he will resist, if concession seems cheaper, he will meet the Union's claims". On what basis will the employer make his choice with respect to the foregoing alternatives? The author then considered the two most important variables involved (a) the magnitude of the wage demand, and (b) the expected length of the threatened strike. He goes on to say:

We can then construct a schedule of wages and lengths of strike, setting opposite to each period of stoppage the highest wage an employer will be willing to pay.

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rather than endure a stoppage of that period. At this wage, the expected cost of the stoppage and the expected cost of concession (accumulated at the current rate of interest) just balance. At any lower wage, the employer would prefer to give in, at any higher wage, he would prefer that a stoppage should take place.

This we may call an 'employer's concession schedule', we can express it graphically by an 'employer's concession curve'. It will leave the \( y \)-axis at the point \( Z \), where \( OZ \) is the wage which the employer would have paid if unconstrained by Trade Union pressure. (It may be the same or different from the wage which he had been paying when the dispute arose). The curve cannot rise higher than some fixed level, since evidently there is some wage beyond which no Trade Union can compel an employer to go. If wages are to swallow profits completely, he will prefer to close down his works and leave the industry.

Now just as the expected period of stoppage will govern the wage an employer is prepared to pay to avoid a strike, so the wage offered will govern the length of time the men are prepared to stand out. They, in turn, are making a choice between present and future evils — present unemployment and future low wages — and thus the length of time they are prepared to stand out will vary according to the prospect of gain from doing so. ... So in their case, too, we can draw up a schedule, a resistance schedule, giving the length of time they would be willing to stand out rather than allow their remuneration to fall below the corresponding wage. This again can be translated into a 'resistance curve'.

![Graph of Wage Rate vs. Expected Length of Strike](image)
At its lower end, the resistance curve must cut ZZ' at some finite distance along it, for there must be some maximum time beyond which the Union cannot last out whatever be the terms offered. At the upper end, it will usually cut the y-axis, because there is usually, though not always, some wage beyond which the Union will not desire to go, however easily, in terms of striking time, it can be secured. Very often, the resistance curve will be nearly horizontal over a considerable part of its length, since there is some level of wages to which in particular the men consider themselves entitled. In order to secure this level they will stand out for a long while, but they will not be much concerned to raise wages above it.

The employer's concession curve and the Union's resistance curve will cut at point P, and the wage OA corresponding to this point is the highest wage which skilful negotiation can extract from the employer. If the Union representatives demand a wage higher than this, the employer will refuse it, because he concludes that a strike, undertaken to obtain so high a wage as this, will not last long enough to make it worth while for him to give way. A strike is the lesser evil. If the union demands a wage less than OA, the demand will be conceded without much difficulty, but the negotiators will have done badly for their clients.¹

Hicks then proceeds to discuss the circumstances under which the employer would prefer to negotiate rather than endure a work stoppage, and also, once a strike takes place, how the most probable wage the union can expect to achieve continues to fall, the longer the strike lasts. The final outcome, however, is always subject to unexpected occurrences which may shift one curve or the other, changing the staying power of either party from the original position. This may take place, for example, if the market conditions facing the employer should suddenly

¹Ibid., pp. 142-144.
worsen or if additional resources and support should suddenly be made available to the union.¹

In an effort to explain the bargaining power of workers and employers in different labor market situations, Bronfenbrenner attempts to provide greater generality to Hicks' approach. He endeavors, therefore, "to determine, in each of several type cases, the effects of trade union collective bargaining upon wage rates, employment and labor income, in the absence of effective resistance by employers."²

Bronfenbrenner concludes from his analysis:

(1) Collective bargaining by unions may benefit workers without departing from atomistic competition between workers for positions. At the same time, it reduces the area of indeterminacy in a competitive labor market.
(2) Workers' gains through collective bargaining under atomistic competition may be increased further by union wage-fixing.
(3) Union wage fixing counteracts the effects of monopolistic but not monopolistic exploitation of labor.
(4) Unionists' and non-unionists' incomes are maximized simultaneously under the open shop, in the absence of employer discrimination.
(5) The union closed shop, besides concentrating the burden of unemployment on non-unionists, decreases total labor income, whenever the union membership is too small to meet the employers' demand at a wage which maximizes labor income.
(6) Employer discrimination against unionists can be divided into two types, differing in their relation to the desirability of the closed shop.
(7) Employer quantity discrimination leads to a situation in which the closed shop may increase total labor income. Even so, gains above the atomistically competitive level may be possible in its absence.

¹Ibid., p. 145.

(3) Under employer price discrimination, the closed shop tends to lower labor income in all cases. It is less desirable here than under a situation with no discrimination whatsoever.\(^1\)

Although Bronfenbrenner deals with various labor market situations and incidentally recognizes the relationships which may exist between the factor and product markets,\(^2\) he fails to elaborate sufficiently on the latter relationship and limits his argument to the wage fixing activities of unions. To this extent, therefore, his discussion does not add a great deal more than Hicks' presentation.

The "ability to pay argument" for wage increase may take several forms. The union may recognize that the employer, under existing circumstances, is not immediately able to pay, but if certain adjustments in the market are achieved, wage increases may be realized. The analyses of Hicks and Bronfenbrenner do not consider such possibilities.

Dunlop attempts to show that unions may, in fact, attempt to make an employer better able to pay a higher wage by cooperating with him in the manipulation of the product market. This he does by classifying such attempts according to the following analytical scheme. Trade unions may pursue

\[
\begin{align*}
\text{(1) policies designed to shift product demand functions;} \\
\text{(2) policies affecting supply conditions in product markets,} \\
\text{a form of affecting factor supply conditions, and (3) policies} \\
\text{affecting competitive conditions in product markets.}\^3
\end{align*}
\]

\(^1\)Ibid., pp. 550-351.

\(^2\)Ibid., p. 548.

Dunlop also emphasizes the importance of trade union wage policy in the wider context of "the total labor bargain", which includes non-income as well as pecuniary objectives. Moreover, a demand for a wage increase may disregard completely the employer's ability to pay if "changes in wage structure have been intended to promote membership in a trade union".¹

From the standpoint of public labor policy, Dunlop makes still another contribution. Too often, the activities of unions are viewed in the narrow sense of being fundamentally occupied with income objectives when actually the wage structure being bargained for has more subtle overtones. In attempting to regulate the conduct of labor organizations, as Dunlop points out,

> It will be fruitful to examine in every case the possibility that wage structure may be directed towards union organization, division of work, specific means of remuneration, like vacations with pay, affecting the rate of technical change, desirable working conditions, and partial control over entrance to the trade and quality of training recruits.²

Although the economic effects of a change in the wage structure may be paramount in the mind of the policy maker, regardless of the particular union objective, it is extremely important to recognize the motivation of the union in framing the appropriate action to be taken by the policy maker. In the past, the simplest, and perhaps least effective, line of approach was outright prohibition of undesirable behavior.

By taking into account the motivations of a trade union it should be

¹Ibid., p. 338.
²Ibid., p. 341.
possible to apply Hart's suggestion of "framework incentive planning" to workers' organizations as well as business firms. More will be said on this point in a later section.

Since workers' organizations today pattern rather closely the size and concentration of business units, it would seem desirable to analyze the collective bargaining process in terms of bilateral monopoly. Earlier attempts to do so, by applying the theory in its traditional form of a single seller facing a single buyer, failed to account for certain peculiarities of trade unions as "sellers of labor". Haley, in describing Fellner's approach, for example, attempts to clarify this difficulty.

This application of the theory to the labor market, however, differs from its application to a commodity market since in the case of a unionized supply of labor, the concept of a supply schedule is inappropriate. It may be assumed, however, that there is some level of wages below which the union would not accept employment for its members, and also it may be assumed that the union, to an extent which varies, weighs against one another the advantage of higher wages for its members and the disadvantage of increased unemployment that may accompany higher wages.

Fellner, using indifference curves representing the union's preference for wages and employment and the possibility of substituting one for the other, avoids the difficulty of the supply concept in dealing with collective bargaining in terms of bilateral monopoly. The shapes of the indifference curves reflect two possible assumptions: (a) they may be horizontal lines, indicating that the union is fundamentally interested in higher wages and is

1See p. 68, above.

not concerned with employment effects of such wage increases and (b) they are convex to the origin, indicating that the union is conscious of any employment effects resulting from wage increases and considers wages and employment imperfect substitutes. The firm's demand for labor is shown by the value product functions from any variations in its labor inputs.

A total of four possible cases are distinguished by Fellner, the first two deal with assumption (a) above in which (i) the employer is sufficiently strong to fix the wage, and (ii) the union is sufficiently strong to fix the wage. The last two deal with assumption (b) again, using similar alternatives illustrated under assumption (a).

Case 1. Employer stronger than trade union. It is assumed that the union disregards effects on employment and has some minimum wage below which it will not go. Since O\textsubscript{1} is the lowest wage acceptable to the union, the employer will fix the wage at that level, employing OB units of labor.

![Graph showing wage and employment relationship](image)

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>W\textsubscript{max}</td>
<td>Upper limit of bargaining range</td>
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<tr>
<td>W\textsubscript{min}</td>
<td>Lower limit of bargaining range</td>
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<tr>
<td>ANP</td>
<td>Average net productivity</td>
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<tr>
<td>MNP</td>
<td>Marginal net productivity</td>
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Figure 8

\footnote{Fellner, W., \textit{op. cit.}, p. 509.}
Case 2. Trade union is stronger than employer. The same assumptions used in Case 1 apply. The union will fix the wage at \( W_1 \), a higher wage will cause the employer to incur losses per unit of input and eventually would be forced out of business. 0C units of labor would be employed. One would expect, however, that the consequent unemployment resulting from the higher wage would cause the union officials to reconsider their wage policy. This is shown below.

Case 3. The employer is stronger than the union. It is assumed however that the union recognizes the possible effects on employment of any change in its wage demands. The employer will force the union to accept

\[ I_1 = \text{lowest indifference curve acceptable to union,} \]
\[ \text{hence it is equivalent to the supply curve for labor.} \]
\[ MC = \text{marginal curve drawn to lowest indifference curve,} \]
\[ \text{hence it is equivalent to the firm's marginal cost of labor input.} \]
\[ I_3 = \text{highest indifference curve attainable by union} \]
\[ \text{without forcing the firm out of business.} \]

Figure 9.

the wage OD (on the 1 indifference curve) and OB workers will be employed (where the MNP and MC curves intersect).
Case 4. The union is stronger than the employer, again using the assumptions made in the previous case. The union will force the employer to pay a wage equal to OC but employment will fall to OA (where the $l_2$ curve is tangent to $\text{WNP}$).

Fellner's analysis, of course, deals only with the wage-employment aspects of the labor bargain. Apart from the limitations imposed by leaving out other significant factors which enter into labor agreements, there also exists a further weakness in his approach. Fellner assumes that the wage-employment objectives of the trade union leaders are identical with those held by the rank and file. This may be the case, but sufficient evidence exists to indicate that the interests of union leaders and members frequently diverge. No difficulties will arise, during the process of negotiation, if the union leaders have the authority to conclude agreements with employers, without being required to submit new contracts to the membership for approval. But where the membership does approve or reject the terms of a new agreement, it is necessary to take their influence into account.

There are several reasons for the existence of differences between the leadership and rank and file with respect to the specific terms in a collective agreement. Two major orders of disagreement can be distinguished: (1) those resulting from the personal ambitions of the leadership and (2) those reflecting either ignorance on the part of the membership or their desire for immediate gain. As a first approximation, it would appear reasonable to assume that the rank and file do not concern themselves with the employment effects of a wage bargain. As Slichter has pointed out:

The rank and file can easily visualize the benefits that
will come to them from a wage increase or from certain changes in working rules. These advantages are definite and immediate, whereas the possibility of some loss in employment is remote, uncertain, and conjectural.¹

Moreover, Slichter elsewhere describes divergence of objectives between the leadership and the membership of trade unions in the following terms:

The temperament of the leader, his aggressiveness, his willingness to take chances or his disposition to be cautious, the relative importance which he attaches to the short-run or long-run consequences of policies, his sense of responsibility to the public, his ambition to advance within the labor movement, all influence the selection of policies. Quite naturally the leader who is eager to advance toward a place of greater power and prominence in the labor movement is likely to select policies with that end in view. These will not necessarily be the policies which will maximize the present value of the future incomes of union members. ...

Despite the influence of the ambitions and rivalries of leaders upon union policies, the usual situation does not appear to have been that the leaders have been too aggressive for the rank and file. On the contrary, when leaders have been displaced or when segments of unions have broken away from the parent organization, the revolt has almost invariably been against officers who were too conservative and slow-moving. ...

By combining the approaches used by Fellner in Cases 1, 2 and 3, 4, noted above, it should be possible to deal with this somewhat more complicated model. Figure 10, below, shows the two conflicting preference systems of union rank and file, and the leadership, as well as the firm's


revenue product curves. It is assumed that the lowest indifference line acceptable to the rank and file is at a higher level, over part of its range, then the lowest acceptable indifference line of the leadership. To this extent the indifference line which has relevance to the actual bargaining process will represent the combined preferences of these two groups. The curve SR-LIₚ is therefore the composite "least acceptable indifference line", where T-LIₚ is the least acceptable curve to the rank and file while SR-LIₗ is the corresponding curve to the leadership. If the leadership did not concern itself with the preferences of the rank

Figure 10. Divergence of Leader-Member Preference System

and file and were forced to yield to the employer's terms, the wage would be OD and employment OZ. Similarly if the rank and file must be reckoned with, the wage would not fall below OT and employment would equal OE.¹

¹Cf. p. 137.
At the other extreme, if the union is more powerful than the employer and is able to fix the wage to its own satisfaction, the upper wage limit, preferred by the leaders, would be OU and employment OV. The rank and file, however, would not be content with such an agreement since they would feel that the wage ON was obtainable and their leaders were not driving the hardest possible wage bargain.

We can therefore conclude that Fellner's analysis tends to neglect a rather important aspect of the bargaining process, namely, the divergent preferences of union leaders and members with respect to the wage bargain. However, the approach he uses can be modified to take this possibility into account.

Thus far the "ability to pay" criterion has been argued upon fundamentally rational grounds. Both parties to the bargaining process are assumed to be maximizing some magnitude involving but two variables, wages and employment. The employer presumably attempts to maximize profits per unit of input purchased while the union attempts to maximize subjective satisfaction.

Some doubt has been expressed recently as to the validity of the foregoing assumptions. Ross, for example, views the trade union as essentially a political entity and hence attempts to describe their behavior in non-economic terms. His approach is viewed in marked contrast with the contributions noted above:

The model of the union as a monopolistic seller of labor motivated by the desire to maximize some measurable end,

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commonly the total wage bill, is a deeply misleading one. The union does not sell labor. It is a political agency representing the sellers of labor, led by officials who stand in essentially political relationships with the rank and file, the employers, the other organizational levels of the union, the rest of the labor movement and the government.¹

Because Ross expresses a point of view growing in popularity among labor economists, his position is quoted extensively in the material that follows. Moreover, his argument provides valuable insights in terms of promulgating public labor policy.

Despite the popularity of analogies from physics, economic behavior remains perversely intractable to mechanical analysis. Within the several branches of economic theory this is nowhere better illustrated than in the theory of wages and collective bargaining. The apparatus of equilibrium analysis has been adopted in its entirety. Wages are the 'price of labor' established in the 'labor-market', collective bargaining is 'bilateral monopoly'. The union is conceived as a monopolistic seller of labor. Wages are regarded as emerging from the interaction of supply and demand in the labor market. In order to complete the analogy, it is held that competition among buyers and sellers of labor integrates and unifies the wage structure, while imperfect competition inhibits the tendency towards equalization.

Formally, the parallel appears reasonably good. Much could be overlooked if the formal analysis worked well, and if, as sometimes happens, more or less correct conclusions were reached from false premises. But if current wage doctrine is conceptually unsound, practically it is impossible. The results are poor and the lacunae manifold. Where one price should prevail in the labor market, there are many. Labor market theorists are so burdened with the task of identifying rigidities and imperfections that little time has been left to make a constructive theoretical reformulation. On balance the labor market concept is a net liability in wage analysis; there is fatal disjunction between the spatially limited character of supply and demand and the spatially unlimited characteristics of wage determination under collective bargaining.

We are not enlightened as to why unions demand what they do, why employers grant what they do, and why arbitrators award what they do. We are told that the wage structure is a living, breathing organism, but its way of life remains a mystery. Viewed in the large, what is euphemistically called our 'national wage structure' is a maze of distinctions and differences. Some are more or less in accordance with commonly accepted notions of equity, such as distinctions between skilled and unskilled workers, or appear to follow economic geography or to correspond with the profit position of employers. These we call inequities. In still other situations with the soundest of economic bases for wage distinctions, none are found. Some differences persist indefinitely, others narrow gradually, and still others are eliminated entirely. The 'national wage structure' seems to consist of little islands of rationality in a sea of anarchy.

Theoretical reconstruction must begin by recognizing a few elementary facts. The trade union is not a seller of labor. It is a political instrumentality not governed by the pecuniary calculus conventionally attributed to business enterprise. (Others are better qualified to judge whether this is also true of the business enterprise itself.) The influences determining wages run in political rather than geographical or industrial orbits. Where a single price does emerge, there is established a prima facie case against the operation of market forces.

There are forces in society and in the economy making for uniformity in the wage structure, but they are not merely the forces of supply and demand. Ideas of equity and justice have long permeated industrial society, but the growth of organization has endowed them with compelling force. They provide the substance of equitable comparisons and they govern the administration of consolidated bargaining structures. These are the strongest equalizing tendencies in wage determination.

Equitable comparisons are highly important to workers, employers, unions and arbitrators. They attain additional strength through the administrative and political convenience of a ready-made settlement. They run in limited orbits, however, and not in a single chain throughout the whole economy. It is when the several locals of a single international union centralize their wage policies and consolidate their strategies, when separate industrial establishments are brought under common ownership, when the state plays a more active role in setting rates of pay,
when rival unions negotiate together for mutual protection and when employers organize into associations to preserve a common front that comparisons become coercive in the determination of wages. Under these circumstances small differences become large and equal treatment becomes the *sine qua non* of industrial peace. A sixty-day strike over two cents an hour may be irrational in the economic lexicon, but viewed as political behavior it may have all the logic of survival.¹

The deficiencies of current wage theory suggested by Ross do not lie fundamentally in our inability to explain trade union behavior in terms of economic rationality. Even as a political institution, Fellner's approach could serve as a first approximation. The difficulties connected with making judgments concerning the ability to pay argument stem largely from the firm's behavior in the product and factor markets. Current price theory, expressed in micro-static terms, is not able to deal with the problem.

Regardless of what forces there are determining the particular wage demand put forward by the trade union, the matter of crucial importance involves the employer's reaction to that demand. Economic theory, at present, is not prepared to explain the decisions reached by the firm and hence, the impact of wage negotiations on such decisions. Reynolds, for example, in discussing the shortcomings of current price theory as applied to wages, makes the following observations:

First, the static theory of the firm cannot be used for the prediction of actual business behavior, both because of defects in the cost and revenue functions - extreme instability, lack of continuity, lack of independence, and so on - and because of the basic inapplicability of static methods to changing conditions. Timeless cost-revenue diagrams should be restricted to problems to which they are appropriate, e.g., exposition of the meaning of ideal allocation of economic resources.

¹Ibid., pp. 820-822.
Second, actual business behavior should be analyzed by the use of period models ... (taking into account the effects of risk and uncertainty).

Third, it seems reasonable to expect that the direct effect of a wage change in a particular firm on output and employment in that firm will usually be very close to zero. The significance of this hypothesis (if correct) is that in models of the economy as a whole, general changes in money wage rates can safely be taken as changing wage payments in the first instance by the same percentage as the change in rates.¹

The foregoing discussion illustrates the weaknesses connected with attempting to deal with wage-price problems in microstatic terms. The criteria used by trade unions to justify wage increases therefore need to be viewed in the larger context of full employment policy. Cyclical insecurity raises many questions of public policy at this level of the individual firm and trade union, which perhaps can be solved within a full-employment framework. It should not be assumed however that all labor problems would thereby disappear. On the contrary, new difficulties of a more serious nature would arise.

Employment stabilization: The threat of unemployment has frequently led government, business units and trade unions to support and put into practice programs designed to minimize the hardships coincident with the lack of job opportunities. There are two major techniques which we shall concern ourselves with. Government has used unemployment insurance as an ameliorative device for some time. Some business units have introduced guaranteed annual wage contracts at the behest of trade unions and recently

trade unions have used political pressure to gain adoption of such contracts.

Since public policy is fairly well established with respect to unemployment insurance and recently pronouncements advocating the extension of guaranteed annual wage contracts have been made, an evaluation of these proposals should contribute much to our understanding of an integrated full employment program.

The great weakness of our present unemployment insurance system is that it does not fit into current proposals utilizing monetary-fiscal techniques for the purpose of counteracting cyclical fluctuations in business activity. The tax contributions of firms, for example, are too rigid, and hence tend to be deflationary when business activity is depressed and inflationary when demand for consumption goods is excessive. Moreover, the experience rating system does not dovetail with suggestions currently being made for flexible income tax rates designed to increase purchasing power during depressions.

A fundamental change in the unemployment insurance system, prerequisite to its proper functioning, would entail a revision in the assumptions underlying the program itself. At best any system of unemployment insurance can do little, if anything, to stabilize the general level of business activity. Psychologically, it gives the worker a temporary feeling of security, should he be forced to find employment elsewhere. This presupposes, however, the availability of jobs, and therefore workers would not find themselves destitute while changing from one employment to another.

The present system of unemployment insurance makes the following assumptions:
(1) business units are, for the most part, responsible for fluctuations in business activity; (2) business units are able to stabilize the volume of their own output, independently of what other firms are doing; (3) the funds contributed by business units, to the insurance system, are borne by the employer and have no effect on the level of employment. Obviously, these assumptions cannot be substantiated. Although, in the aggregate, firms make decisions which determine the level of output and employment, any one firm cannot stabilize its own level of production and employment in the face of a general reduction in business and consumption expenditures. Moreover, it seems likely that employers tend to shift any tax contributions back to their employees in the form of correspondingly lower wages. During depressions the tax burden contributes to additional unemployment since firms can reduce their tax obligations by reducing their payrolls.

The experience rating system, which offers lower tax rates to employers maintaining relatively stable employment records, needs to be revised. There are several alternatives. One recommendation which has been made maintains that the underlying assumption of individual responsibility is still valid but the system should be revised so that it operates countercyclically. The major features of this proposal are presented below:

1. Preserve employer interest in unemployment insurance and employment stabilization.

2. Maintain solvency of system as a whole.

3. Have tax rates high in period of full employment and tax rates low in periods of unemployment to aid business stability.
Basic Rules:

1. In time of declining employment, a tax rate paid by an employer shall not be increased.

2. In times of rising employment a tax rate paid by an employer shall not be decreased.¹

The disadvantages of this proposal are first, that it perpetuates the individual firm's responsibility for unemployment and its capacity to deal with the problem; second, the tax rates are not flexible downward during periods of declining employment and they are not flexible upward in periods of high employment; third, the solvency of the system unnecessarily limits the disbursements which may be made during periods of large-scale unemployment.

An alternative well worth considering would remove the assumption of employer responsibility. Furthermore, contributions would be made by both employers and the government and no attempt would be made to maintain the solvency of the program in the usual sense. Government would make large contributions during depressed business activity while firms would make the major payments during prosperity. Experience rating would be used to encourage firms to spread employment (reducing hours rather than the size of their labor force). This would then permit unemployment insurance payments to be made to workers who are only partially unemployed and would also enable proposals for the reduction of income tax payments during depression to have a wider impact since only that portion of the labor force

¹Second Annual Conference on the Teaching of Labor Economics, New York State School of Industrial and Labor Relations, Cornell University, Ithaca, N.Y., August, 1948, p. 95.
which is employed benefits from a reduction in income tax rates.¹

The Old Age and Survival Insurance Program also has employment effects which run counter to the techniques required for the operation of a full employment program. Since both the employer and worker contribute to this insurance fund, counter-cyclical flexibility in the rate structure would be desirable. In addition, the system is required to accumulate reserves, far exceeding its annual commitments to pension receivers. It has been suggested that the Social Security program function on a "pay-as-you-go" basis, thereby reducing the contributions required of employers and workers and hence freeing funds for additional consumption or investment. One estimate of the accumulated reserve, by 1970, amounts to approximately thirty-three billion dollars.²

Still another technique for increasing the worker's job security is the guaranteed annual wage. The supporters of this device range from extremists who consider guaranteed wages as a business cycle panacea to the more moderate advocates who believe labor relations would improve tremendously if such plans were adopted. This latter point is expressed in the OHM study prepared in 1947. The report states, for example, that employers could expect reduced labor turnover, lower training, hiring and employee injury costs, greater efficiency in the plant, increased productivity of workers resulting from their feeling of security and so on. These benefits should offset a large share of the additional cost incurred by the employer when


the plan is adopted. The supporters of this contention, however, fail to realize that the advantages enumerated above may prevail when some firms guarantee employment while others do not. Should all firms provide such guarantees, workers would not consider employment in any particular firm attractive because of the job security offered. Hence the improved labor relations frequently used as an argument in support of the guaranteed annual wage cannot be considered as an effective spur to increased worker loyalty and productivity.

It has also been suggested that the general application of guaranteed wage plans would tend to improve the allocation of labor resources somewhat since seniority provisions in trade agreements are inserted in order to remove the fear of insecurity on the part of the worker. Seniority provisions, however, attempt to cope with the problem of long-run insecurity and to the extent that wage guarantees are provided for periods ranging in length from only three months to a year, the worker would still fear the loss of his job at the end of the guarantee period. Consequently, the desire for seniority provisions would not be eliminated by the introduction of employment guarantees. But insofar as employers are required to stabilize their production and inventory schedules in order to minimize the costs of guaranteeing employment, the size of the work force attached to a particular firm would tend to be a relatively stable one.

In sum, however, it would be reasonable to assume that:

Under the guaranteed wage plan the main effort is to provide work for the worker on his old job or at least in the firm to which he is attached; under unemployment insurance the emphasis is placed upon connecting up workers and jobs in any firm offering suitable work.¹

The more extreme view concerning the virtues of annual wages, namely, that the general level of employment and business activity would improve and cyclical fluctuations would thereby be eliminated requires special attention. At first glance, this argument seems reasonable.

For, after all, markets and purchasing power make jobs, and jobs in turn make income and markets. Therefore, why shouldn't the universal announcement of a guarantee of steady work fulfill its own compound and not only lead to steady employment but do so without costing business anything?²

Upon closer observation, the attractiveness of the argument disappears as questions dealing with the consumption and investment effects of wage guarantee are raised. Hansen and Samuelson, for example, emphasize the limited consumption effects which may be expected. They go on to say:

Individuals will not suddenly change long-established customs and habits with respect to the disposition of their incomes between consumption and saving merely because, from the social standpoint, the turn in the cycle calls for an increase in spending out of a reduced income. Thus an offsetting increase in consumption actually falls off when investment declines, since unemployment and declining business prospects induce a decline in private spending patterns ...

Unfortunately, economic analysis of guaranteed wages does not substantiate the claim that this device would, as a first approximation, necessarily tend to maintain consumption for any appreciable period of time at the


appropriate full employment levels, i.e. roughly at seven-eights of the full-employment level of net national income.¹

With respect to the business cycle, Samuelson and Hansen remind the supporters of guaranteed wages that investment plays a fundamental role in providing high employment levels, particularly investment in the capital goods industries. What effects are likely if guaranteed wage plans are instituted in this sector of the economy? Most discussions of guaranteed wage plans assume that they will be privately financed either on an accumulated reserve or pay-as-you-go basis. In either case, the capital goods industries would, as a consequence, incur higher costs and prices. To this proposal Hansen and Samuelson make the following assertion:

To argue that costs and prices should be raised in such industries flies in the face of certain commonly accepted programs for fighting depression — programs which stress the need to reduce construction costs, interest rates, and capital costs in general so as to stimulate investment outlays. It would be bad social accounting to discourage employment in the capital goods industries by saddling additional costs on these industries. Such a procedure is only too likely to reduce the total volume of capital goods outlays over the cycle, thereby leaving the system at a lower average level over the entire cycle.²

Certain aspects of the experience rating system that were considered objectionable are also found in generalized guaranteed wage plans. Since all firms would be required to set up reserves to finance the program, there is the presumption that business units are able, on an equal basis, to provide for the unemployment (now hidden by wage guarantees, regardless


²Ibid., p. 837.
of the firm's actual labor requirements) prevailing in their respective industries. Firms least able to bear the burden would now be required to support the "unemployed". This is also true of the experience rating system in which firms hit hardest by a slackening of business activity are required to make relatively larger contributions to the unemployment insurance reserves than the more fortunately situated business units.

On the other hand, if a high employment economy is maintained by government and as a supplementary program a system of annual wage guarantees is encouraged, there is something to be said for charging industries which use labor resources seasonally, the full cost of attracting labor temporarily away from other, more stable, productive units. In this sense differential contributions by firms can be justified, but fundamentally on allocative grounds rather than on their individual responsibility for an overall reduction in employment.

The possibilities of a publicly financed guaranteed annual wage will be taken up in a later section dealing with overall wage policy. For the present we shall limit ourselves to the theoretical aspects of such guarantees, entered into, within the framework of free collective bargaining. Leontief has this to say about the introduction of combined "price-quantity" wage bargains in place of the former technique, wherein the wage was usually determined by the seller and the quantity to be purchased at the wage was left to the buyer's discretion:

Such a change extends appreciably the magnitude of the maximum advantage which the stronger of the two contracting parties can obtain, at the expense of the weaker, through exercise of monopoly power. If the employers constituted
the stronger side, this increased gain would be theirs. If the labor unions could secure for themselves a dominant bargaining position, they would definitely increase their distributive share by letting the total amount of labor to be hired as well as the wage rates to be paid become an object of collective bargaining.

It is interesting to observe that the drive for guaranteed annual wages represents only one particular instance in the more general tendency to replace the conventional method of monopolistic marketing - which allows the other party to the transaction to choose freely the amount which it will buy (or sell) at the given price - with a new kind of agreement which fixes both the total volume as well as the price of purchase ...

Firms subject to wage guarantees are also likely to make compensations in the product market for the additional fixed costs which they have now incurred. And it seems likely that relatively small firms will find it increasingly difficult to operate, with a large proportion of their costs fixed rather than variable. Hochwald describes these tendencies in the following terms:

For the individual firm, the most important and most obvious result of growing cost rigidities is a shift in the 'optimum scale of enterprise'. With larger and larger investments in relatively fixed agents necessitated by institutional changes in the labor market, the range of decreasing unit costs widens for the firm, and the optimum point of output is shifting to the right on the conventional cost-output diagram. This trend toward 'big business', initiated by cost conditions, is intensified by the growth of uncertainty which results from the employment of relatively fixed agents. Long-run commitments in the purchase of fixed agents presuppose a longer planning period, a wider 'horizon' of the individual firm, which in turn increases uncertainty and the tendency to protect profit expectations through demand

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manipulation or product diversification. Demand manipulation implies the growth of selling costs and all other aspects of monopolistic competition, an attempt to adjust demand to fixed resources rather than to adjust resources to a shifting demand. Product diversification permits more efficient utilization of fixed agents, making costs which are fixed for the firm as a whole variable for individual operations and products. Both demand manipulation and product diversification are likely to restrict opportunities for new firms and to increase the optimum size of the typical business unit.  

Summary

Economic instability takes many forms. Business units and trade unions are not capable of dealing with the underlying forces making for instability and hence follow the path of least resistance — adaptation. Government, the only agency having the authority and resources fitted to the task, has not acted in accordance with the basic requirements of a well conceived and integrated program. It is not surprising, therefore, to find both labor and management solving a myriad of problems to their own satisfaction, independently of their effects on the public interest.

In this section the major labor difficulties confronting society have been recounted. In each case the problem has been stated, followed by a brief description of the approach utilized by the group affected to ameliorate their difficulties, and finally other suggestions which have been made to meet these issues. One general proposition which seems to characterize most of the questions raised in this section is that instability, regardless of its form, cannot be managed at the level of the individual worker, business

unit or trade union. Yet because the doctrine of "individual responsibility" is so firmly ingrained in our public and private thinking, we have not been able to develop programs which deal with individuals and groups in the aggregate.

In the sections that follow an attempt will be made to outline the elements of public labor policy conceived in terms of the secular necessity for economic progress and the conditions essential for the removal of cyclical insecurity. It is in this latter state of instability that one finds the many circumstances which give rise to the other forms of economic behavior already mentioned.

Secular Maladjustments In Labor Markets

Many of our current labor problems are manifestations of industrial change in the secular sense. These are accompanied by occupational and social changes also having their roots in long-time bulges in the economic superstructure. There are no immediate solutions to these problems and in some cases they are perpetuated by institutional arrangements.

Secular maladjustments, in our sense, are defined as misallocation of labor resulting from changes in the structure of an economy over relatively long periods of time. They are not due to short term manipulations of the price mechanism, but rather reflect the protective barriers erected by special interest groups to forestall economic progress. Included among these barriers are the various forms of inertia which inhibit rapid economic change. Although an argument can be made for the slow introduction of new methods and techniques, there is the constant danger of complacency overtaking society's
needs for economic growth and improvement.

Colin Clark defines economic progress "as the attaining of an increasing output of these goods and services for a minimum expenditure of effort, and of other scarce resources, both natural and artificial". In most countries, including the United States, progress has taken place as a result of increased output per head in the industrial, commercial and service sectors of the economy and the movement of population out of the agricultural sector.

With respect to labor markets, there are still other changes accompanying economic progress. The following, in particular, seem significant:

1. Gradual elimination of the unskilled manual worker with the rapid expansion of the number of workers in the clerical and professional fields.
2. The narrowing of earning differentials between skilled and unskilled workers as well as manual and clerical workers.
3. The impact of educational opportunities on job preference has been responsible for this tendency toward the equalization of earnings.
4. High real wages are fundamentally associated with high output per head.
5. Income inequalities are an outgrowth of the unequal distribution of property ownership, hence, labor's demand for an increased share of the total output may have serious repercussions on present institutional arrangements with regard to property.

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2. Ibid., p. 12.
3. Ibid., pp. 4-16.
Among our institutional arrangements, perhaps the most significant change to occur is the emergence of labor organizations as a vital force in the labor market. In an earlier section the trade union movement was traced from its formative stage, in which its interests were devoted to the general social and intellectual improvement of the workingman's position in the community, to its present stage embodying the principles of business unionism. Secularly, therefore, the trade union movement has made an important contribution to the cause of economic progress. It has played a significant role in improving the status of the human agent through its demands for better educational facilities, shorter working hours, workmen's compensation and social security legislation and so on, thereby making it potentially more productive.

At present, however, having accomplished these initial tasks, trade unions have assumed a new role, in which they exercise a greater degree of control over the supply of labor, the wages paid to labor and the employer's demand for labor. What effect will such control have on the efficient utilization of labor in the future? Are barriers being erected against further economic progress? For example, will the importance currently being attached to the maintenance of wage differentials between industries and occupations slow down the tendency toward the equalization of earnings?

Concerning the supply of labor as a secular problem still other questions arise. With the steady increase in real wages as output per head rises, the rate of population increase tends to decline. What are the consequences of a relatively stationary population on the requirements of a dynamic economy? What are the effects of an ageing population on output per head? Moreover,
as real wages rise can we expect the supply of labor to all firms to decline? Douglas, for example, found that this was the case in his early studies of the supply curve of labor. The effects of such behavior on national output are obvious.

Our secular labor problems are not all found on the supply side. There are also long-run difficulties to be found in the demand for labor. Technological innovations are constantly creating new labor requirements and displacing old skills. The growing concentration of corporate ownership has far-reaching implications with respect to the location of economic activity, the rapidity with which technological innovations are introduced, and the responsiveness of these firms in meeting labor requirements consistent with an economy of high employment in the future. With the labor force constantly increasing in size, will these relatively large industrial empires have the imagination and foresight sufficient to provide jobs by continuing to expand their productive capacity?

An attempt will be made in this section to investigate the more significant long-run changes which have occurred in our labor market and to suggest public policies designed to overcome any maladjustments which have taken place.

The supply of labor resources

The productive capacity of any nation is measured by the quantity and

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quality of natural resources (including the human agent) at its disposal. For the achievement of a high standard of life, however, the sum total of all resources is not a sufficient measure of a nation's potential, since productive agents are not perfect substitutes for each other. The combination of resources at the disposition of a nation is therefore of considerable importance. Dewhurst declares:

What a country lacks most sets the limit to its productive capacity, and the ability to use any of the factors of production is so dependent on the supply of the others as to make a surplus of one useless—except as it sets up pressures to increase the supply of the others.¹

The United States has had an interesting experience over the last three decades that may well serve as an illustration of this proposition. During the colonial period shortages of labor limited our economic expansion in spite of the abundance of other resources. This was fundamentally true also of the long period of national expansion up to the 1920's.

Apart from occasional periods of business slack, we utilised all the human resources at our disposal, and up to World War I, we absorbed a continuous flood of immigrants in building up our industrial plant and railroad system, developing natural resources and colonizing the western frontier. During the 1920's the situation appears to have changed somewhat. With a generally high level of business activity, we had a sufficient labor supply to meet all demands, in spite of shrinking immigration. The severity and duration of the depression after 1929 made it appear to many as a turning point in the economic history of the United States, rather than a phase of the business cycle.²

¹Dewhurst, J.F., op. cit., p. 539.
²Ibid., pp. 539-40.
With World War II, however, we found that the supply of labor seemed excessive only in retrospect, but with the construction of additional plant and equipment our manpower requirements were again in excess of supplies. The postwar period once more finds the American economy limited in its expansion of goods and services by the size of its labor force. What fundamental changes have taken place in the composition of the labor force during these several decades?

**Impact of population change.** In discussing the supply of labor we are actually concerned with the size of the labor force at any particular moment. The labor force, however, is a rather difficult magnitude to define and it is constantly fluctuating due to influences not related to changes in population alone. There are seasonal as well as cyclical changes which tend to increase or decrease the number of individuals seeking jobs or entering new trades or professions. Apart from these factors, the most significant changes are due to secular causes. Table 2 shows the expansion in our labor force since 1870.

The changes which have occurred in the percentage of the population, ten years of age and over, in the labor force, provide the policy-maker with important information concerning full employment policy. The particular definition of "full employment" used, of course, is of the utmost importance. But any attempt to define the concept of "full employment" is immediately beset with a number of important questions involving the size of the labor force. This involves both cyclical and secular considerations. One definition which has been put forward, namely, to
provide job opportunities in excess of the number of job seekers is an almost impossible one to fulfill. The data shown in Table 2, for example, indicate that from forty-four to fifty-two percent of our population have at various times entered the labor market.

Table 2. Growth of Labor Force in United States, 1870-1940.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population</th>
<th>Persons 10 Years of Age and Over</th>
<th>Persons 10 Years of Age and Over Gainfully Occupied or in Labor Force</th>
<th>Percentage of Percentage of Pop. Population 10 Yrs. of Age &amp; Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>1870</td>
<td>39.8</td>
<td>29.1</td>
<td>12.9</td>
<td>32.5</td>
</tr>
<tr>
<td>1880</td>
<td>50.2</td>
<td>36.8</td>
<td>17.4</td>
<td>34.7</td>
</tr>
<tr>
<td>1890</td>
<td>62.6</td>
<td>47.4</td>
<td>23.3</td>
<td>37.2</td>
</tr>
<tr>
<td>1900</td>
<td>76.0</td>
<td>53.0</td>
<td>29.1</td>
<td>38.3</td>
</tr>
<tr>
<td>1910</td>
<td>92.0</td>
<td>71.6</td>
<td>37.4</td>
<td>40.6</td>
</tr>
<tr>
<td>1920</td>
<td>105.7</td>
<td>82.7</td>
<td>42.4</td>
<td>40.1</td>
</tr>
<tr>
<td>1930</td>
<td>122.8</td>
<td>98.7</td>
<td>47.6</td>
<td>38.8</td>
</tr>
<tr>
<td>1940</td>
<td>131.7</td>
<td>110.3</td>
<td>53.3</td>
<td>40.5</td>
</tr>
</tbody>
</table>


For a time it was thought that this percentage increased during depression periods. The "additional worker theory" assumes that a drastic decline in demand for labor compels many dependents (housewives, students, and retired elderly persons) to enter the labor market in search for jobs. The purpose of their search is, of course, to restore the family income, reduced by the unemployment of husband and father.

An opposing point of view states that the labor force expands when wages rise. And still a third point of view, recently put forward by


Long, states the following: "While showing, at times, considerable turbulence in its composition, the labor-force proportion is remarkably constant in overall size."

Perhaps a more reasonable conclusion would take into account the inherent weaknesses of the data upon which most labor supply discussions are based. There are certain arbitrary classifications of labor which are not included in the official statistics—household labor being the most important. With the growing influx of women into the labor force, much of the work formerly done in the home (and not officially designated as employment) is now transferred to individuals outside of the home, who are included in the labor force. One would therefore expect to find the growth in the proportion of individuals entering the labor force somewhat over-stated as more and more women become job seekers.

The age distribution of the population, as well as social security legislation, also have an impact on the size of the labor force. In terms of labor policy, for example, the maintenance of a relatively stable price level, given the number of old age pension recipients, would not induce individuals over sixty-five years of age to enter the labor force. A rising price level, however, would probably accelerate the rate at which older individuals enter the labor market, thereby making the maintenance of full employment (however defined) more difficult.

World War II also provides us with some indication of the flexibility in the labor force. From 1940 to 1944, for example, the labor force

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1Ibid., p. 350.
expanded by ten million workers. By 1960, on the other hand, it is estimated that the labor force will decline by almost one million from the 1944 peak.¹

We still know relatively little about the elements which determine the size of the labor force. The following are undoubtedly important influences: money wages, the price level, job opportunities, age distribution of the population, educational opportunities, extent of social security provisions, changes in consumption expenditures and tastes, and the net reproduction rate of society. Since many of these factors are subject to modification as a result of public policy, it is difficult to project past trends into the future.

It is interesting to note that the percentage of the population entering the labor force has shown the greatest variation from 1930 to the present. This is also the period of social experimentation and upheaval. We can conclude that the size of our labor force in the future will be largely determined by conscious or unconscious social policy. If society does attempt to influence the number of individuals seeking employment, what form should it take? In effect, we are asking what the optimum size of the labor force should be, consistent with the criteria of economic growth and development. In short, is there some relationship between economic progress and the size of the labor force over time?

For any given amount of land and capital the optimum population² can

¹Ibid., Appendix 3, p. 695
²We shall assume that \( L = kP \), where \( L \) is the size of the labor force, \( k \) is some constant greater than zero but less than one, and \( P \) represents the size of the population.
be represented graphically in the following manner.

![Physical Output vs Population Diagram]

**Fig. 11. Determination of Optimum Population, Fixed Resources**

In Figure 11, OA represents an optimum population since, with a larger population the marginal product of labor would be less than the average output per head and a reduction in population, to OA, would raise the output per head. Conversely, if the population were less than OA, marginal productivity would be greater than average output per head and an increase in population to OA would raise average output per head.²

If the assumption of fixed capital resources is dropped, however, the notion of an optimum population (labor force) requires modification. For each stock of capital we can construct a production function and thereby determine the corresponding optimum size of the population. Figure 12 illustrates these successive optimal positions.

The optimal size of population with a stock of capital equal to 𝐶₁
is OA, 𝐶₂ is OB, and 𝐶₃ is OD. Time periods are denoted by subscripts 1, 2 and 3. Should the population not increase at the required rate, i.e.

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from OA to OD, while the stock of capital rises from $O_1$ to $O_3$ the average output per head would not be as high as it might otherwise be. That is to say, capital resources would be wasted.\footnote{Kalecki, M., "Three Ways to Full Employment", The Economics of Full Employment, Oxford Institute of Statistics, Oxford, 1940, p. 50.}

![Graph](image)

Fig. 12. Effects of Capital Accumulation On Optimal Size of Population.

Up to the present we have been assuming that the proportion of the population entering the labor force remains constant. This assumption must now also be removed. Suppose, as the experience of the United States would indicate, that the proportion of the population entering the labor force declines as well as the rate of population growth. What will the effects be on the optimal size of the labor force? Two powerful influences will now be at work distorting the utilization of capital resources over time. The waste of capital resources due to a discrepancy in the rates of growth between population and the stock of capital is reinforced by a decline in the proportion of the population entering the
labor market.

Figure 13 illustrates this deviation from an optimum labor supply. C₁ and C₂ represent production functions based on changes in the stock of capital over successive time periods, N represents the size of the labor force, P represents the size of the population and L represents N = f(P), subscripts 1 and 2 denote corresponding time periods. Assume the existence of an optimal labor force during t₁ amounting to OB workers with a population of OE. At t₂ the stock of capital has increased causing the production function to rise to C₂. The optimum labor force would now move to OD but suppose at t₂ population only increases by EF and moreover the percentage of the population in the labor force is shown by L₂. The labor force would therefore drop to OA and AD would represent the discrepancy between the actual labor force and the optimum.

Fig. 13. Discrepancy Between Actual and Optimum Labor Force.
In view of the foregoing discussion what constitutes desirable public policy from a secular standpoint? Meade and Hitch point out that:

... the United States probably finds itself at the moment, with its population greater than the optimum (with the existing quantities of capital), and increasing, but with a net reproduction rate less than unity and decreasing. The initial fall in population will be in the direction of the optimum, and should therefore raise the potential standard of life, but it will be continued far beyond the optimum point unless steps are taken in time to raise the net reproduction rate back to one by the time the optimum is reached.¹

Secular labor force policy obviously involves an attempt to influence the size of the population either by immigration or the encouragement of larger families if the size of the labor force is less than the optimum. On the other hand, should the labor force be larger than the optimum an increase in the stock of capital would seem warranted.

A lowering of the immigration barriers would be one means of effectively increasing the size of the labor force. However, if the future labor force size is of paramount interest the use of family allowances and the taxation of single individuals would tend to encourage larger families.

Increasing the stock of capital, if the labor force is larger than optimum, poses several difficulties. Coupled with a full employment program, an attempt to accumulate capital for the purpose of getting the labor force and capital resources into proper alignment, may result in a rapidly rising price level. In turn, still greater numbers of individuals may enter the

labor market in order to maintain their real incomes and hence the amount of capital needed to balance the size of the "normal" labor force would tend to be exceeded.

A full employment program may also run counter to the secular capital requirements for an optimum labor force. This point is clarified by Hansen:

The 'employment' criterion for investment may not correspond to the 'growth' criterion (population increases and technical progress). It is the latter that should guide us in our investment policy. If the 'growth' criterion does not provide adequate investment to maintain full employment, methods other than an increase in investment should be found to ensure both full and optimum use of resources. The principle of optimum use of resources would be violated if we artificially increased the level of investment merely to provide employment.¹

The demand for labor resources

The changing character of the American economy, in the secular sense, manifests itself in terms of the maldistribution of labor resources among the major economic regions of the country. Since labor is relatively immobile, any discrepancies between the availability of labor and the number of job opportunities (excluding cyclical differences) reflects long term changes in demand.

As technology progresses and the availability of factors of production is modified, regional misallocations of labor occur. But even within a particular region certain skills and occupations become outmoded.

However, if the region generally is an expanding one, absorption of the unemployed will occur at a rapid pace and new uses will be found for old skills. The difficult problems are centered in those regions where the pace of economic activity does not keep up with the growth of labor resources. Secular labor policy must address itself therefore to such cases.

As Spengler has pointed out:

The fitness of a region for the production of specific goods and services depends, transfer relations (i.e. the circumstances which determine the costs of overcoming distance) being taken as constant, principally upon the proportions in which the several factors occur in that region.¹

Of course, there are non-economic factors which also contribute to the growth characteristics of a region. Moreover, neither the proportions of the factors nor "transfer relations of a region" remain unchanged over periods of time.²

In spite of the expansion of industrial activity during World War II and the relocation of plants and industries, no significant shifts have taken place sufficient to correct the maldistribution of labor resources. As a recent study indicated, "the older industrial states are not showing serious symptoms of becoming ghost areas, at least not in the foreseeable future."³ However, this does not mean that the demand for labor in the

²Ibid.
older areas will continue as before.

There are slow changes taking place in the resource requirements of manufacturing industries which eventually will create serious allocative problems. Just as the extractive and manufacturing industries required 68 percent of all workers in 1870 and by 1930 only 45 percent, this trend will probably continue.1 There is increasing evidence that the "tertiary industries", that is, the commercial and service sectors of the economy, are undergoing a marked secular expansion.

Table 3. Industrial Distribution of the Labor Force 1870-1930

<table>
<thead>
<tr>
<th>Industrial Division</th>
<th>Per Cent Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1870</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>53.0</td>
</tr>
<tr>
<td>Forestry and fishing</td>
<td>0.5</td>
</tr>
<tr>
<td>Extraction of minerals</td>
<td>1.4</td>
</tr>
<tr>
<td>Manufacturing and mechanical industries</td>
<td>20.5</td>
</tr>
<tr>
<td>Transportation and communication</td>
<td>4.2</td>
</tr>
<tr>
<td>Trade</td>
<td>6.8</td>
</tr>
<tr>
<td>Public service (not included elsewhere)</td>
<td>0.7</td>
</tr>
<tr>
<td>Professional service</td>
<td>2.6</td>
</tr>
<tr>
<td>Domestic and personal service</td>
<td>9.7</td>
</tr>
<tr>
<td>Clerical occupations</td>
<td>0.6</td>
</tr>
</tbody>
</table>


1Spengler, J.J., op. cit., p. 479.
In contrast, the "primary industries", i.e. agriculture and extractive, are undergoing a sharp reduction in the proportion of the total labor force, while the "secondary industries", i.e. manufacturing, have stopped growing and face reductions in the future. Table 3 describes the foregoing in detail.

Although in the aggregate these changes may not seem acute, on a regional basis the problem is somewhat more urgent. This is particularly apparent in terms of regional patterns of population growth and rates of migration. As a recent BLS study indicated:

... there is typically not enough migration from areas of low economic opportunity to drain off the surplus labor supply. Many workers are reluctant to leave familiar surroundings and family ties. The uncertainty and fear attending migration are reinforced by its cost. This is particularly significant, for it is precisely those who should move who usually lack the means to do so. Added to these factors is the general ignorance as to where employment opportunities lie. The war stimulated migration not only because new job opportunities arose but also because they were dramatized and publicized to an unusual degree.

There has been a noteworthy trend toward the development of industry in areas of surplus labor supply. During recent decades, for example, industrialization of the South has been proceeding more rapidly than in the country as a whole. Nevertheless, it appears that the resulting shift in the distribution of employment opportunity has been relatively small. Internal migration will have to continue if all workers are to be afforded useful employment opportunities.1

What factors are responsible for long term changes of the occupational

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structure? Two forces seem most relevant: (a) increased productivity per worker and (b) the extent of the market for the product of the workers concerned. These forces have contributed to the changing occupational structure unevenly as we view regional labor markets from 1880 to 1940. Figure 14 and Table 4 show the percentage distribution of gainful workers by three major groups, extractive, manufacturing and mechanical, and distributive and service, according to the six major regions of the United States during this sixty year period. For the United States as a whole, the proportion of gainful workers in the extractive industries declined from 46 percent in 1880 to 21 percent in 1940. The proportion engaged in manufacturing and mechanical industries rose from 20 percent in 1880 to 30 percent in 1940, while the largest gains took place in the distributive and service trades increasing from 34 percent in 1880 to 59 percent in 1940. As the National Resources Committee pointed out:

Employment opportunities are, to an increasing extent, in the factory, store, and office. If the trend established in the past decade continues in the future, most of the new jobs must be sought where there is an opportunity for taking part in complex industrial and commercial processes or in servicing community needs. This has important implications for population redistribution.

Distortions in the occupational structure become apparent when we

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1Vance, R.B., All These People, University of North Carolina Press, Chapel Hill, 1945, pp. 143-149.

note the regional deviations from the United States occupational trend. Considering existing rates of population growth, the Southeast provides the most urgent and immediate problem. In 1880, the extractive industries provided employment for 70 percent of all gainful workers in the region. By 1940 there were still 37 percent employed in this group. In contrast, the manufacturing and mechanical trades only increased from seven to thirteen percent during the same period, actually declining from a peak of twenty percent reached in 1930. Since fertility rates are highest in this region as compared to the rest of the nation, particularly in rural areas, the absence of industrial expansion tends to accentuate the misallocation of labor resources in the secular sense. Moreover, this accounts for the fact that "the ratio of farm population to land in farms is much greater there than in any other region."

The Southwest manifests the same difficulty, as does the Northwest, but perhaps to a lesser degree. Both of these regions have more than a third of their gainfully employed workers in the extractive industries. With productivity per worker in agriculture increasing rapidly, labor requirements in farming will decline, hence releasing these workers for jobs in either the manufacturing or service sectors of the economy. Fortunately the rates of population growth are not as rapid here as they are in the Southeast.


Figure 14. Percentage Distribution of Gainful Workers by Three Major Groups, United States and the Six Major Regions 1880-1940.

Age Distribution of Gainful Workers by Three Groups, United States and the Six Major Regions (1940).

Table 4. Percentage Distribution of Gainful Workers by Three Major Groups, United States and the Six Major Regions 1880-1940.

<table>
<thead>
<tr>
<th>Date and Major Group</th>
<th>Per Cent Distribution by Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S.</td>
</tr>
<tr>
<td>1880 Extractive</td>
<td>46</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20</td>
</tr>
<tr>
<td>Distributive</td>
<td>34</td>
</tr>
<tr>
<td>1900 Extractive</td>
<td>38</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22</td>
</tr>
<tr>
<td>Distributive</td>
<td>40</td>
</tr>
<tr>
<td>1920 Extractive</td>
<td>29</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>31</td>
</tr>
<tr>
<td>Distributive</td>
<td>40</td>
</tr>
<tr>
<td>1930 Extractive</td>
<td>24</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29</td>
</tr>
<tr>
<td>Distributive</td>
<td>47</td>
</tr>
<tr>
<td>1940 Extractive</td>
<td>21</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>30</td>
</tr>
<tr>
<td>Distributive</td>
<td>59</td>
</tr>
</tbody>
</table>

Recent shifts in the location of industrial plants are not adequate in view of the foregoing discussion, although some sections registered a slight improvement. The recent Industrial Conference Board Study describing the location of industrial plants built before 1940 as compared to those built from 1940 to 1947 points out the following:

... the New England, Middle Atlantic, East North Central and South Atlantic states show proportionate losses in recent years, while the East South Central, West South Central, West North Central and Western states registered gains.1

In no case was the shift spectacular, however, with Minnesota and New York showing the largest gains.

Impact of economic progress. Changes in the location of economic activity are largely a function of economic progress. At any moment of time, however, a number of factors are responsible for the existing location of such activity. The accident of historical settlement, the location of natural resources, geographic attributes of an area including the consequent opening up of transportation routes, all contribute to the geographic structure of economic enterprise. As technological progress, in all its forms, takes place, discrepancies appear between the existing location and superior regions of development. Within a given area, technological advances may involve a recombining of the factors of production already available. Moreover, the same degree of pressure is not exerted on all forms of economic activity at the same time. Rates of economic progress subject some industries to more violent

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1National Industrial Conference Board, op. cit., p. 10.
stresses and strains than others. For any particular enterprise, a number of specific interrelated factors need to be weighed. For example:

Production and distribution problems require consideration of the sources of materials, fuel and power; the need for special labor skills, prevailing wage levels, and the efficiency of labor, availability of management, transportation facilities, service, and costs, and the nature, location and extent of the market.¹

For convenience we may classify industrial location as either: (a) resource orientated, (b) market orientated, or (c) "foot-loose". As technology exerts an ever-increasing influence, industries tend to shift their orientation away from particular localities and exercise much greater freedom in choosing their location. The resource perhaps most affected by this change is labor, "the trend has been to make labor orientation on the basis of skill a locational factor of decreasing importance in most manufacturing industries."² This trend of course works to the advantage of unskilled labor in surplus areas, especially where local governments offer additional inducements, e.g. lower tax rates, free factory sites, etc., but the displaced skilled worker creates an even more difficult problem to solve.

In some instances trade unions unwittingly provide for such a transition by limiting the number of entrants to the skilled trades thereby raising labor costs for the present but lowering future social costs. It may also be argued, however, that the unions in turn encourage substitution of machinery for labor by their wage policies. To what extent

²Ibid., p. 5.
entrepreneurs make such substitutions on the basis of comparative costs cannot be determined on the basis of available empirical evidence. In any case, there seem to be few instances in which plant location is based on labor resource orientation. The extent of the market and the proximity of natural resources far outweigh the availability of skilled labor in the selection of plant location.

Boddy, in describing a study of the distribution of seventy-five manufacturing industries by the ratio of skilled labor to total gainful workers in 1930, points out that only twelve industries had a work force in which skilled operators made up between thirty and sixty percent of the total. In contrast, sixty-three industries reported percentages between nought and thirty. The largest group, involving thirty-seven industries, reported only zero to ten percent of their work force in the skilled category. However, on a regional basis most of the industries using a large proportion of skilled workers were centered in six states located in the Northeast. The Far West and the North Central region also had large concentrations of skilled workers.

Increasingly, however, a combination of circumstances has reduced the skilled labor requirements of American industry. Two contributing factors seem most important.

In the first place the development of specialized and automatic machines has reduced the skill requirements on many production jobs to the semiskilled machine-operator level from the former requirements of a high level of all-round skill. Secondly, the growing

1Ibid., p. 227.
emphasis on time and motion study and the breaking-down of skilled operations into simpler components which can then be apportioned to separate semiskilled operatives have further reduced the demand for general skills. Such developments have undoubtedly reduced the locational pulls toward areas in which large groups of highly skilled workers have been concentrated.¹

World War II caused a considerable shift in the occupational structure, reflecting a marked expansion in industrial capacity and the increased utilization of new techniques. This temporary upsurge in investment activity, filling the void created by the absence of civilian activity during the war, may temporarily alleviate the secular distortions in the occupational distribution of the labor force. Table 5 indicates clearly the major trends since 1940.

The data for 1947 show a re-emergence of the pre-war pattern and the probable shifts to be expected in the future. Agriculture suffered the sharpest decline, falling from 18.6 percent of gainfully employed workers in 1940 to 13.6 percent in 1947. Operatives and kindred workers showed the most significant increase moving from 18.5 percent in 1940 to 21.5 percent in 1947, reflecting the shift of workers out of domestic service, sales work and farming into these relatively higher paid positions.

With respect to the future, it is estimated that under optimal conditions between 40 and 41 percent of the working force would be found in the manufacturing and extractive industries.² This objective is rapidly being achieved as new techniques continue to raise the productivity

¹Ibid., pp. 229-230.
per worker in these industries. This poses serious problems for a labor force whose locational freedom is seriously limited. Spengler estimates that approximately 60 percent of the labor force is directly or indirectly linked to resources or concentrated in manufacturing industries.¹

Table 5. Percentage Distribution of Employed Workers Classified by Major Occupation Groups, April 1940, 1945, and 1947.

<table>
<thead>
<tr>
<th>Major Occupation Groups</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1940</td>
</tr>
<tr>
<td>Total employed</td>
<td>100.0</td>
</tr>
<tr>
<td>Professional and semiprofessional workers</td>
<td></td>
</tr>
<tr>
<td>Proprietors, managers, officials (except farm)</td>
<td>7.5</td>
</tr>
<tr>
<td>Farmers, farm managers, foremen and laborers</td>
<td></td>
</tr>
<tr>
<td>Clerical workers</td>
<td>18.6</td>
</tr>
<tr>
<td>Sales workers</td>
<td>10.4</td>
</tr>
<tr>
<td>Craftsmen, foremen and kindred workers</td>
<td>6.5</td>
</tr>
<tr>
<td>Operatives and kindred workers</td>
<td>11.2</td>
</tr>
<tr>
<td>Domestic service workers</td>
<td>18.5</td>
</tr>
<tr>
<td>Service workers, except domestic workers</td>
<td>4.9</td>
</tr>
<tr>
<td>Laborers, except farm</td>
<td>7.3</td>
</tr>
</tbody>
</table>


¹Ibid., pp. 480-481.
Discrepancies between the percentage distribution of manufacturing wage jobs within two hundred industrial counties from 1899 to 1935 and rates of population growth from 1930 to 1940 are shown in Table 6.

Table 6. Percentage Distribution of Manufacturing Wage Jobs Within 200 Industrial Counties, 1899 to 1935, and Rates of Population Growth 1930 to 1940, by Major Economic Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Population Growth</th>
<th>Percentage Distribution of Manufacturing Wage Jobs Within 200 Industrial Counties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1930-1940</td>
<td>1899</td>
</tr>
<tr>
<td></td>
<td>percent</td>
<td>percent</td>
</tr>
<tr>
<td>New England</td>
<td>3.3</td>
<td>20.7</td>
</tr>
<tr>
<td>Middle Atlantic</td>
<td>4.9</td>
<td>43.9</td>
</tr>
<tr>
<td>East North Central</td>
<td>5.3</td>
<td>22.0</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>12.9</td>
<td>3.4</td>
</tr>
<tr>
<td>East South Central</td>
<td>9.0</td>
<td>2.6</td>
</tr>
<tr>
<td>West South Central</td>
<td>7.3</td>
<td>.3</td>
</tr>
<tr>
<td>West North Central</td>
<td>1.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Mountain</td>
<td>12.1</td>
<td>.3</td>
</tr>
<tr>
<td>Pacific</td>
<td>18.8</td>
<td>2.4</td>
</tr>
<tr>
<td>United States</td>
<td>7.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>


b. Source: Adapted from, Spengler, J.J., op. cit., p. 490.

c. Data represent percent increase in population for region as a whole.

d. Data rounded to nearest tenth.

Although the three major Southern regions, along with the Mountain and Pacific regions, experienced the largest increases in population, very slight changes occurred in the percentage distribution of manufacturing
wage jobs during the 1929 to 1935 period. The increase in population in the Pacific region reflects heavy migration into the area rather than high fertility rates and is consistent with the relatively higher wage levels prevailing in the region as compared to the rest of the nation. The South, on the other hand, with its high fertility rates, ranks at the lowest end of the scale with respect to prevailing wage levels.  

Given the relative immobility of labor, clearly secular labor policy will require an industrial location pattern which not only contributes to the most efficient utilization of physical resources but of existing and potential labor resources of regions as well. In some instances, encouraging a degree of fluidity in labor markets which does not now exist may be the only way of dealing with depressed regions. On the whole, however, governmental policy which attempts to influence the location of economic enterprise, rather than increased labor mobility, seems to provide the better solution for problems involving the secular misallocation of labor resources. The broad outline of such policy may take any of the following forms:

(a) The actual determination of locations for Government-owned or Government-financed plants; (b) the influencing of private locational decisions through control of transport rates, labor costs, power costs, and other factors; and (c) the provision of data to aid private businesses in choosing profitable locations.


2National Resources Planning Board, Industrial Location and National Resources, op. cit., p. 337.
No specific policy recommendations are provided for these secular labor problems because they properly involve considerations involving the allocation of non-labor resources. Where increased labor mobility offers a partial solution, suggestions are provided for in a later section.\(^1\)

The particular aspects of public labor policy concerned with the secular maladjustment in our labor markets are subject largely to political considerations and hence the part of the program receiving special emphasis will be determined by such influences.

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**Cyclical Maladjustments In Labor Markets**

The Employment Act of 1946 marked a turning point in American economic history. Prior to its enactment the Federal Government had no stated policy with respect to the dislocation resulting from changes in the level of business activity. Now —

... it is the responsibility of the Federal Government to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.\(^2\)

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\(^1\)See infra, p. 231.

For the first time attention is specifically directed at the maintenance of high levels of employment. As a major policy declaration such legislation has great merit. Its fundamental shortcoming, however, is reflected in the absence of detailed proposals for achieving its high purpose. Moreover, nowhere in the Act can one find a realization of the importance of integrating public labor policy with that of the goal of "maximum employment".

Although President Truman, in his "Economic Report To The Congress" dated January 8, 1947, recognized the need for policies which would foster the efficient use of labor resources and the maximum utilization of productive agents, his message merely argued against job discrimination and the disorganization of our present system of public employment exchanges.

Cyclical maladjustments in our labor markets manifest themselves in a number of ways. Most important perhaps are the distortions which occur in the wage-price relationship. With powerful labor unions and employers initiating changes in these magnitudes, stabilizing employment and output at high levels poses a serious threat to the institution of free collective bargaining. More concretely, government policy which proposes to maintain high employment must also choose either a rising price level and resource misallocation or some control over labor union wage determination and entrepreneur price fixing. As we shall presently show, society may have to pay a high price for maintaining the institution of free collective bargaining in its present form. The possibility of reconciling this dilemma will form the major part of the following discussion.
Wages, prices and production

Once full employment has been achieved, real income received by a factor of production can only be increased at the expense of some other factor. Since all factor incomes are expressed in money terms however, and most factor prices are determined autonomously, the futility of attempting to modify real factor shares only becomes apparent after inflation has "lifted the monetary veil".

Reder has provided an interesting analytical approach to the problem of simultaneously following a program of high employment and a stable price level. The implications of such a program with respect to public labor policy have also been raised by Singer, Jewkes, Beveridge, Graham, Lerner, Worswick, and Lange, to name only a few.


Following Reder, we can assume that the monetary authority proposes to follow a policy of maintaining full employment and hence maximum real output. (It is assumed that the distribution of income and the degree of monopoly remain unchanged.) Money national income will therefore vary directly with changes in the price level. Since \( Y = PX \), where \( Y \) equals money national income, \( P \) equals some appropriately defined index of prices, and \( X \) represents total physical output, the maintenance of \( X \) at some level sufficient to employ the entire labor force can be achieved with \( Y \) and \( P \) varying in the same proportion. Figure 15 shows this relationship.\(^1\) The 45\(^\circ\) line, \( N \), denotes the variation in \( Y \) as \( P \) changes, assuming \( X \) to be the level of real physical output to be maintained by the monetary authority. In the simplest case, Reder defines the equilibrium price level as one which will prevail subject to the condition that the sum of the claims to the national income (\( W \), the aggregate wage bill plus \( a \), contractual income payments such as interest, rents, royalties, etc., plus \( n \), entrepreneurial income or profits) must be equal to the money value of national income produced.

Line \( T \) represents the vertical sum of the claims to the national income at different prices. As Reder points out:

The equilibrium price is at \( P_2 \), where the \( T \) curve intersects the \( N \) line. Equilibrium implies that the set of product prices that satisfy the profit demands of employers (given wage and overhead costs) would imply a product price level that would satisfy wage-earners.\(^2\)

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\(^1\)Reder, H.W., op. cit., p. 47.

\(^2\)Ibid., p. 50.
At $P$, it is clear that the sum of the claims to the national income $P_1R$, are in excess of national income produced, $P_1S$. Hence, equilibrium does not prevail. That is to say, the price level and national income will continue to rise until the equilibrium price level $P_2$ is reached.

It is also possible, however, for no equilibrium price level to prevail. In a completely unstable system, for example, the $T$ line would lie above $N$ at any price level we may choose. Since the monetary mechanism tends to hide the incompatibilities of demands made by the various groups in the economy, this case may be quite realistic. Moreover, the monetary authority may find it quite impossible to maintain both the value of the currency and full employment. Certainly either one objective or the other...
would have to be given up.\(^1\)

There are several ways of partially reconciling this dilemma, but in any case, the role of public labor policy in an economy of full employment is of first importance. Radical changes in our attitudes toward free collective bargaining may be necessary. Basically, public policy will require a shift in emphasis from "labor relations legislation" to "wage-price adjustment" legislation. More will be said about this matter in the section dealing with the establishment of a new labor policy.

The economic system consists of several interrelated aggregates or markets which are only remotely related to the existing state of industrial relations.\(^2\) Even with the smoothest machinery available for the settlement of industrial disputes, the relationship between the labor market and the other markets in the economy is of major importance for a program involving the maintenance of full employment with a stable price level. As a matter of fact, a well oiled arbitration system, appended to the institution of free collective bargaining, may simply speed up the wage-price spiral. With the frictions between labor and management no longer retarding the rate at which wages and prices may rise, a full employment policy would rapidly lead to inflation. Since each trade union leader is obligated to obtain a wage increase for its membership comparable to increases secured by rival unions, no one trade union leader can afford

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\(^1\)Ibid., pp. 53 ff.

\(^2\)See Appendix A for a summary of the interrelations of the various markets in the economy.
to be left behind in the rush. Employers, on the other hand, are free to raise prices sufficiently to effect any wage increases, or they may do so independently of a rise in wages if they desire to increase their profit margins.

The only theoretical solution to this problem would, of course, require both parties to bargain in real rather than money terms. As Reder points out:

However, one cannot be sure that this will help matters... For, while agreement on wage rates may be possible provided the employer retains his freedom to adjust product prices, it may be quite impossible to reach agreement on wage rates if, at the same time, his prices are set for him at a level he feels to be too low, given wage rates. Attempting to conduct bargaining in real terms might well bring about a wave of bitter labor conflicts far more difficult to settle than any we have experienced hitherto; for the safety valve of product price adjustments will have been removed.  

Labor markets and full employment.

Other writers in the field are somewhat more optimistic about the wage-price problem. They divide themselves conveniently into two groups. The first, bases its argument on the restrained bargaining thesis; the second, uses the limited control thesis. Both, however, agree substantially with the analysis provided by Reder. They differ only in their conclusions with respect to the pressure labor leaders might exert on the wage level and the degree of control required to keep inflation

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1 Lerner, A.P., "The Inflation Problem", Speech delivered before the American Economic Association, Cleveland, Ohio, December, 1948.

2 Reder, M.W., op. cit., p. 52.
within reasonable bounds.

Restrained bargaining thesis. Sir William Beveridge argues that since wage pressures during full employment emerge as a result of uncoordinated sectional bargaining by individual trade unions, it is the responsibility of the national parent organization to unify its wage policy "with reference to the economic situation as a whole." As to the question of the trade union leaderships' ability to follow such a course of action, Beveridge declares:

Organized labor in Britain has sufficiently demonstrated its sense of citizenship and responsibility to justify the expectation that it will evolve, in its own manner, the machinery by which a better coordinated wage policy can be carried through.

He recognizes, however, that additional measures may be required and proposes that a compulsory arbitration clause be included in every collective agreement. To facilitate the work of the arbitrator and to minimize the possibility of awards being rejected, he would add two further conditions: (1) that the government make a real effort to stabilize prices, and (2) that employers accept the responsibility of making all facts concerning profits and costs available to the arbitration agency. Under these circumstances it is assumed that labor will have sufficient wisdom to use restraint in its negotiations with employers.

The price level, according to Beveridge, would be stabilized by

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2Ibid.
selective price controls affecting goods and services in short supply. For many commodities, however, he assumes competition among employers will keep prices from rising and hence no controls would be needed.

Another advocate of the restrained bargaining thesis, Braunthal, argues that in a full employment economy trade unions would temper their wage demands for several reasons:¹

1. The force of public opinion would inhibit the leadership somewhat, since direct responsibility for price increases would fall on the unions' shoulders.

2. With sustained full employment, workers would not feel that wage losses during depression would have to be compensated for during prosperity by inordinately high wage demands.

3. Full employment, for the economy as a whole, would not guarantee each specific firm or industry a market for the goods and services it produces, hence, workers attached to such firms or industries would still need to concern themselves with the loss of their own jobs, should they press their wage demands too far.

4. In view of the discussion under (3), workers would still need to concern themselves with the possibility of being laid off and forced to accept employment elsewhere at lower rates of pay or inferior working conditions.

Are these conditions sufficient to curb the wage demands of union leaders? Forsey adds the following qualifications:

... if the public, including the union public, is sufficiently educated; if the government shows that it really means to get and keep full employment; if it controls prices; if it takes the unions into its confidence, and gives them a real share in the formulation of its whole industrial policy, and if the employers accept unions ungrudgingly and wholeheartedly, instead of dreaming of the lost delights of the open shop and individual bargaining, and scheming to bring them back; then the unions will as a rule act reasonably.

Still another group lending authority to the restrained bargaining thesis, perhaps unconsciously or for other reasons, not of purely academic interest, are the industrial relations experts and accountants. With Beveridge, they hold that the availability of facts concerning costs and profit margins can do much to encourage the use of "reason" in wage negotiations. Financial statements directed toward the workers of a corporation, as well as the stockholders, would lessen many of the misconceptions held concerning profits, they argue.

Many of the assumptions underlying the foregoing discussion have come under attack from several quarters, although not specifically directed at the question of wage policy under full employment. Since the nature of the trade union body in terms of its internal politics, as well as economic objectives, are notably neglected by the proponents of the restrained bargaining thesis, how realistic are their suppositions?

A characteristic of the American trade union movement frequently over-

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looked by the above group is the system of dual unionism, thoroughly entrenched in our labor markets. It does not appear likely that under full employment this rivalry will disappear. Moreover, "the rank and file judges its leaders by comparison with other leaders. And in this comparison, immediate monetary gains are the common denominator."\(^1\) Apart from rivalries resulting from the present split in the trade union movement, there are also competing groups within a single trade union body, as well as the personal ambitions of the opponents of the present leadership within any one local or national union. Subject to such pressures, political considerations may easily take precedence over the use of reason on the basis of economic facts alone, in the bargaining process. For, as Ross has stated:

> Unless the union is unusually secure, it must deliver at frequent intervals. The fact that it may have delivered in the past does not eliminate the necessity for delivering in the future. ... The more pronounced is the political contest with the employer, the more necessary it is for the union to show tangible results.\(^2\)

Left-wing unionism, intra-union exploitation, and the possibility of exploiting the unorganized worker, all tend to work against the validity of the restrained bargaining thesis.

Recently, Singer analyzed the "unified wages policy" set forth by

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\(^2\) Ross, A.M., Trade Union Wage Policy, op. cit., p. 110.
Beveridge. His conclusions establish a framework for discussing the limited control thesis. Among the major criticisms suggested by Singer, the following, not already mentioned, are listed:

(1) For purposes of arbitration can we assume, in the face of present accounting techniques, that "costs and profit margins" are in the nature of scientifically observable data? Doesn't it seem likely that the Trade Unions would simply argue that by squeezing profits, managerial efficiency may be sufficiently increased to compensate for a larger wage bill?  

(2) Wage pressures may be induced by employers as well as trade unions. Under full employment, relatively high profits may exert pressure on the wage level by competing firms bidding against each other for scarce labor. It seems unlikely that the trade unions would refuse to accept higher wages offered by unrestrained entrepreneurs.  

(3) Since Trade Unions are political bodies and are often motivated by such influences in making economic decisions any attempt to unify the bargaining process cannot ignore the issues of sovereignty which are bound to arise. There are large unions and small unions, craft unions and industrial unions, organized workers attached to one industry facing similarly organized workers in a competing industry -- in short, a maze of divergent interests will need somehow to be reconciled by a single

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1Singer, H.W., *op. cit.*, p. 443-44.
2Ibid., p. 446.
workers' bargaining agency, for a unified wage policy to succeed.¹

(b) What appears to the outsider to be irrational conduct on the part of the leadership may involve two further obstacles to a unified wage policy:

(a) Trade unionists are not concerned primarily with immediate gains when the very prestige of the organization may hang in the balance. Victory over a recalcitrant employer may be more important to the rank and file than wages lost during a protracted strike.

(b) The maintenance of relative wage differentials are often more important than the absolute level of wages received. Under full employment, where bottlenecks in the labor market can only be remedied by raising wages in the less attractive jobs, workers formerly satisfied with their wage scales will now demand similar increases to preserve the "historical wage relationships" existing between the two occupations.²

Limited control thesis. The foregoing discussion clearly illustrates the limitations of a wage policy based largely on voluntary restraint. Recognizing this weakness, a number of authorities have proposed economic controls of a limited nature designed to augment a full employment program. Perhaps it will be useful to explain the meaning of the term "limited controls" as used herein. It does not, of course, mean "economic totalitarianism" in the sense of direct regulation by some authority over

¹Ibid., pp. 141-142.
²Ibid., pp. 452-453.
every phase of the productive process. However, it may include such de-

vices as taxes, subsidies, compulsory arbitration (with voluntary

acceptance of the award) and at the extreme, price control.

Kalecki provides an interesting scheme whereby government expenditure

(for the purpose of maintaining full employment) would constantly fall,

while at the same time, a policy of stabilizing the price level was pur-

sued. One writer makes the following claim for the proposal: "If the

rise in money wages is not too rapid, the method might indeed be said
to provide the virtues of gradualism, fiscal orthodoxy, and social
justice!"

The following is a summary of Kalecki's plan:

(1) It is assumed that the monetary authority is running a budget
deficit in order to maintain full employment and wages are rising more
rapidly than increases in labor productivity.

(2) To prevent prices from rising, subsidies are paid to firms to
offset any increases in costs. The subsidies, however, are financed
out of increases in income taxes.

(3) Because most of the taxes will come from the higher income
groups, the demand for consumption goods will increase (as a result of
higher money incomes in the hands of wage earners) by more than taxes

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1Worswick, G.D.N., op. cit., p. 66.

2Kalecki, M., "Three Ways To Full Employment", Economics of Full
Employment, op. cit., p. 55.
reduce such spending.

(4) Consequently, in order to prevent prices from rising it will be necessary for tax revenues to exceed the subsidy, sufficient to prevent any rise in prices.

(5) The increase in income taxes, however, must not affect private investment adversely.

(6) The amount of taxes in excess of the subsidy can then be used to reduce the deficit.

In evaluating this proposal one immediately must ask, "How far can the process of income redistribution be carried, without serious political repercussions?" For a time it may, indeed, be possible to squeeze higher incomes without affecting investment. But, as Graham has pointed out, "any considerable rise in the aggregate of real wages must be attained by increased productivity."¹

An alternative plan, put forward by Norswick, endeavors to control price directly by imposing price ceilings. It is his contention that with a full employment guarantee entrepreneurs give way without much resistance to higher wage demands, knowing full well that prices can be raised without losing their market. Under these circumstances entrepreneurs are no longer constrained in their negotiations with trade unions. However, should price ceilings be imposed, employers would then find themselves obligated to resist an increased wage demand or else suffer a

¹Graham, F.D., op. cit., p. 174.
reduction in their profit margins. Where resistance is not feasible, i.e. where a strong union must be dealt with, the employer still has the option of reducing his non-wage costs by increasing efficiency. This will not only increase labor's productivity but will also tend to speed up the rate of technological progress. Worwick admits that the imposition of price ceilings is a complicated process but, in principle at least, he maintains the problem can be solved this way.¹

For the American economy, the above alternative would also have to be ruled out since the degree of control envisaged would be incompatible with the generally accepted end of "free private enterprise".

Reder, inadvertently, offers a possible solution to our problem. In the process of negotiations, both the trade unions and the employers are in effect making decisions with respect to wages and prices. On a nation-wide scale, such bargaining would involve usurping the function of the de jure monetary authorities (the government) by the de facto monetary authorities (trade unions and employers).² That is to say, under full employment the monetary authority would find, much to its consternation, that trade unions and employers were able to change the value of the currency by their influence over commodity and factor prices.

Reder summarizes the discussion in the following manner:

In short, if the (de jure) monetary authority commit themselves to the preservation of full employment, they

¹Worwick, G.D.N., op. cit., p. 66-68.
²Oref. Reder, H.F., op. cit., p. 53-54.
relinquish control over the price level; if they commit themselves to maintaining a constant price level, they lose control over the volume of real national income and employment. Of course, they need not commit themselves irrevocably to either of these policies, but may instead embark upon a policy of trilateral bargaining (with the other two parties) using both the price level and the level of real national income (employment) as bargaining instruments. The results of such a policy would be, of course, formally indeterminate; but it is clear that the (de jure) monetary authorities would not be in sole control of either the price level or the volume of employment. There would be in effect three monetary authorities — the de jure authorities; the labor union, and the employers’ organization. Under such conditions, binding the hands of the de jure monetary authorities by committing them to some specific policy (e.g. maintaining either full employment or a constant price level) will definitely diminish their ability to bargain.\(^1\)

The solution implicit in Reder’s discussion, but not mentioned directly, is well worth exploring. In this section we shall merely establish the general framework for a consistent labor policy embodying the aforementioned suggestions.\(^2\)

Although the wage bargain at present is a two-sided affair, involving trade unions and employers it also has an impact on a third party, namely the public. It would therefore seem desirable for all three parties to participate in the bargaining process. The de jure monetary authority, having a major interest in stabilizing the price level, is in effect, the representative of the public. It also has

\(^1\)Ibid., p. 55.

\(^2\)See p.212 for a detailed outline of a proposed full employment labor policy.
a weapon at its disposal equal in force to that possessed by the employers and trade unions — the power to manipulate the tax mechanism.

If the collective bargaining procedure were revamped so that all three interested parties participated in negotiations on equal terms, it should be possible to prevent undue pressures on wages and prices. This does not mean that the monetary authorities should participate in every wage negotiation, since all wage contracts do not exert equal pressure on the price level. Hence, the monetary authorities should have the opportunity to participate in wage negotiations threatening the stability of the price level. As one of the participants, it would present facts concerning the public's interest in the negotiations and the wider impact of any agreement acceptable to the other two parties. The mere presence of the monetary authorities in the negotiations should have a restraining effect on the agreement reached. Moreover, the publicity attached to such three-sided bargaining will inevitably bring the weight of public opinion to bear more heavily than it has in the past.¹

Assuming, however, that all three parties are not able to reach an agreement, what further action should be taken? Arbitration is generally accepted as a method of settling labor disputes. Compulsory arbitration, however, is considered alien to the basic canons of Anglo-Saxon law. Yet one must make a choice between free collective bargaining and the right of the community to stabilize its currency. Given a program of full

employment, one or the other of these alternatives must yield.

Perhaps it would not do too much violence to our established bargaining practices if a system of compulsory arbitration and voluntary acceptance were instituted. Narrowing the scope of the arbitration board to wage questions only, would avoid the possibility of the board finding itself enmeshed in problems concerning non-wage clauses in collective agreements.\(^1\) Hence, free collective bargaining would still prevail with respect to non-wage issues. And where the monetary authorities felt that it was not concerned with a particular wage dispute, the case would not come within the purview of the arbitration board, but instead, would be settled according to existing bargaining techniques.\(^2\)

**Labor markets and depression**

Thus far we have assumed that the Federal Government intended to pursue a full employment program. Under such circumstances, we outlined the elements of public labor policy designed to prevent a wage-price inflation. It would be too much to suppose that appropriate action to forestall a decline in economic activity would be undertaken at precisely the right

\(^1\)For an opposing point of view with regard to the feasibility of limiting arbitration to non-wage issues see: Reynolds, L.G., Labor Economics and Labor Relations, Prentice-Hall, Inc., 1949, pp. 452 ff.

\(^2\)For a discussion of the criteria to be used by the monetary authority with respect to entering negotiations see infra p. 216.

There are some who believe that a depression may be the only way of correcting any structural dislocations in the economy, growing out of the previous prosperity and therefore no action should be taken whatsoever. Moreover, this same school believes that the threat of depression may prove to be our most powerful restraining influence on the wage-price demands of the various groups in our economy.

With respect to the first argument, Graham has this to say:

> The whole explanation of depressions in terms of 'structural maladjustments' in the economy is inane. Structural maladjustments are always present, are usually in process of elimination, and are constantly appearing in new forms. If production is kept going, the process of elimination of such maladjustments proceeds apace, but, if they are permitted to stop production, the maladjustments are multiplied in a vicious circle of economic stagnation. Many economists have been content to discourse on structural maladjustments as if they were acts of God (rather than the result of defective human institutions) and to enlarge their importance in indefinitely proliferating structural fictions about frictions. The above remedy is so to alter the institutional environment as to preclude such structural maladjustments, as may occur from becoming chronic.¹

In effect, depression wage policy is most amenable to the analytical distinction made earlier — separating the income from the resource problem. The argument for flexible wages and prices during the downswing, is deficient on both practical and theoretical lines as a method of dealing with either problem. At best, a reduction in both wages and prices during a depression is an inefficient method of increasing the money supply.

Since it is desirable to increase the supply of real cash balances

¹Graham, F.D., op. cit., p. 171 n.
during periods of lagging business activity there are two ways of achieving such an objective: (1) by holding the supply of money constant and permitting prices to fall to the required level and (2) stabilizing the price level while increasing the supply of money.\textsuperscript{1}

The flexible price argument, however, would only prove effective under static assumptions, i.e. in the absence of expectations and uncertainty. When dynamic considerations are introduced, flexibility may simply result in continuing price declines and further reductions in employment as additional price reductions are anticipated.

From a practical standpoint, the existing rigidities in wages (due to trade unions and custom) and prices (because of the imperfections in commodity markets) preclude any significant manipulation of these magnitudes. Moreover, it is not sufficient for one or the other to be flexible — a universal, "once and for all" reduction to the desired level would be required. In addition, all factor prices would have to fall in like proportion and commodity prices would have to be freed from monopoly control of any sort. It seems utopian to believe that the multitude of autonomous decisions constantly being made by diverse economic units will somehow exactly fit the required pattern of adjustment.\textsuperscript{2}

Given the relative stickiness of wage rates and their general tendency to rise, irrespective of employment conditions, we may establish certain


criteria for depression wage policy. For the most part, depression wage policy must largely depend on monetary fiscal policy as it endeavors to raise the level of output and employment in the economy. Attempts on the part of trade unions to raise wages during depression may have desirable as well as undesirable effects. Insofar as the monetary authorities pursue a policy of expansion, a rising wage level need not cause additional unemployment. It does, however, mean that the government deficit may have to be somewhat larger than otherwise would be the case.

If, however, wage rates begin to rise rapidly, while the goal of full employment has not yet been reached, direct action on both wages and prices may be required. In such a situation, prices would begin to rise while large segments of the labor force are still unemployed. This does not mean that the trade unions are responsible for this phenomenon — circumstances other than wage increases may also contribute to "premature inflation". But appropriate labor policy would be required in either case. Hart suggests a number of actions:

1. Improving labor mobility
2. Limiting price-support programs of the government
3. Curbing excessive wage increases
4. Encouraging business firms to increase production rather than prices.

Lerner, on the other hand, recommends "counterspeculation" as a method of preventing price increases resulting from monopolistic

\[\text{References:}\]

\[\text{Hart, A.G., op. cit., p. 514.}\]
presumably, this technique would deal adequately with
number 4, suggested by Hart, but would not apply with equal success to
price increases due to wage pressures.

Graham, however, claims a number of advantages for his commodity
reserve proposal. For our purposes the following claim, made by Graham,
is of particular interest:

All the interminable dispute which now afflicts us
as to whether wages are or are not excessive, and
whether there is any wage which would provide full
employment would go by the board.2

Since real and money wages would always move in the same direction under
the commodity reserve system, and the maximum level of real wages would
be determined by the level of employment, any unemployment in the re­
serve industries would immediately signify that real and money wages
were too high. A reduction in money wages would therefore cause employ­
ment, once again, to rise.3 Unless the government is able to deal with
such wage pressures, however, even the Graham storage proposal would find
itself in difficulty.4

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1Lerner, A.P., Economics of Control, op. cit., p. 55.
2Graham, F.D., op. cit., p. 173 n.
3Ibid., p. 173.
4Hart, A.G., op. cit., p. 456. An excellent illustration of this
possibility is provided by Hart:

For example, suppose ... that a persistent upward pressure on
the price level arises from trade-union and government policies
which raise wages. Prices in the composite, being stable,
would be falling relative to other prices. Thus, reserve
(continued)
It is clear, therefore, that wage policy during depression must be prepared to deal with the problem of "premature inflation" growing out of the monetary authorities' attempt to raise output to the full employment level. It is also clear that neither the Lerner nor the Graham proposal, designed to remedy some of the defects in current monetary fiscal techniques, can operate successfully, if wage rates are subject to arbitrary trade union pressure.

In this context, it is also useful to investigate the wage mechanism as an allocative device. With less than full employment, wages no longer perform the allocative function usually ascribed to the price mechanism. The availability of jobs now directs the flow of labor from one employment to another. Hence, monetary-fiscal policy not only acts on the income problem but affects the resource problem as well. With "premature inflation", however, labor resources are wasted in a double sense. The services of labor still remaining unemployed are not available to society. With prices and wages rising, relative changes in the wage structure are commodities would be good bargains, and would be substituted where possible for other commodities. At the same time, the upward drift of wages and nonreserve commodity prices would boost costs of production for reserve commodities, tending to reduce their output. Thus a gap would open out between the consumption and the output of reserve commodities. This gap could be filled temporarily by draining the commodity reserve; and the resulting deflationary pressure might slow the wage-price advance (by the unpleasant method of creating unemployment). But if the upward push were strong enough (and sufficiently immune to unemployment), the only way to keep a commodity reserve system in continued operation would be by successive 'devaluations'...
not easily perceived. Consequently, movements of labor within the employed sector occur less frequently. The fear of not being able to find another position also inhibits any movement from job to job.

Controlling wages at less than full employment is beset with a number of difficulties. As business conditions improve and profits become somewhat buoyant, labor unions increase their wage demands. Moreover, arguments for higher wages are justified in terms of the necessity for increasing purchasing power at this time. How valid are these arguments? Would trade unions be willing to alter their wage demands if suitable alternatives were offered? Answers to these questions are basic in formulating depression wage policy.

The great danger of redistributing income from profits to wages, as business conditions improve, is the damping effect it may have on private investment. Furthermore, and this leads to the second argument, increasing wage rates need not result in increased purchasing power. This is only true if a rise in wage rates does not lead to unemployment. Now then are we to reconcile the possibility of higher wage rates leading to unemployment and the need for increased purchasing power to raise employment? Lerner has this to say:

The answer to this paradox lies of course in the distinction between wage rates and workers' incomes. The former must correspond to the increase in labor productivity if prices are to be kept stable. The latter must be maintained at a sufficiently high level if there is to be an adequate demand for the products of industry. Any discrepancy between the two objectives must be met by adjustments in the net income and spending power of workers without affecting their wage rates. This is a matter in which taxation,
free income and social services can adjust the total rate of spending, of which the expenditure on consumption by workers must be the overwhelming part.¹

Whether the last alternative, offered by Lerner, will be acceptable to the trade union leadership, is open to question. Since the ability of a trade union leader to obtain a wage increase at the bargaining table is a measure of his usefulness to the membership, it does not seem likely that a tax reduction or a government grant of free income will prove attractive to the leaders. In addition, they may feel that a larger increase can be obtained than the government is willing to offer in the form of free income.

The use of subsidies to firms and industries may, however, avoid some of the difficulties described above. Obviously, employers receiving subsidies sufficient to cover their added wage expense, will not be inclined to restrain the unions in their wage demands. Yet, if the government made it quite clear to the employers that the subsidy would eventually be removed or that it would gradually be reduced, as full employment was achieved, the employers would then have to consider the level of wage rates that they would be forced to pay when the subsidy came to an end. Some resistance on the part of employers should therefore be expected.

For the most part, labor policy during depressions is less of a problem than the full employment case. The possibility of causing a reduction in the employment of trade union members will tend to moderate

the wage claims of the leadership. The strike weapon also loses some of its force during depression since shutting down the plant or curtailing output becomes a very real alternative for the employer.

Under what circumstances would it not be necessary for the government to intervene in wage negotiations? There is a "zone of free collective bargaining" wherein the government would maintain a "hands off" policy. This, of course, applies to labor policy in the restricted sense used in this study, as distinguished from industrial relations policy involving the socio-political balance between labor and management. As long as unemployment remained below four million workers, and the price level, as measured by the cost-of-living index, did not rise by more than four percent per six month period it would not be necessary for the government to intervene.1 If one or the other, or both, should occur public labor policy, of the sort previously suggested, would come into play.

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BASIC CRITERIA FOR A NEW LABOR POLICY

During the past century we have seen many illustrations of the public's interest in labor-management relations. The last two decades, however, have witnessed the emergence of a continuing "industrial relations policy" on the part of government, its major emphasis being in the area of equating the socio-political balance of power between the two parties. Now that this objective has been substantially achieved, it is necessary for the government to have a two-fold policy — an "industrial relations policy", designed to maintain this balance, and a "labor policy" designed to deal with the macro-economic problems created by two equally powerful groups bargaining for wages.

This policy distinction further implies that it may be necessary for two different governmental agencies to deal with these problems at the appropriate level. The monetary authorities are unquestionably qualified to establish our public labor policy while the Department of Labor should be provided with authority to deal with industrial relations problems.

Although it is not a simple matter to separate the labor problem in the manner suggested above, we frequently lose sight of the high price society may have to pay for industrial peace. The absence of industrial conflict is a necessary but not sufficient condition for a progressing economy. With government assuming the responsibility of maintaining full employment, it is no longer possible for the public to limit its activities to the framework of monetary-fiscal policy. The labor unions and
employers, in concert, can easily upset the best laid plans of well intentioned government officials.

The effectiveness of a public labor policy will ultimately rest on the successful operation of industrial-relations policy. As long as labor and management distrust each other and the government finds it necessary to throw its support first on the side of one party then on the side of the other, our labor problems will continue to be settled in the political arena. There are some who believe that democracy's major failing lies precisely in this region. As Hansen has clearly stated:

The fact is that we have not been able to resolve the basic problem of the role of government in our modern world. Particularly, we have not learned how to make government an effective, flexible, and responsive instrument in a varied and highly complex society.¹

Under the best of political circumstances, what criteria shall we use in establishing a public labor policy? Our first consideration obviously, involves the framework within which policy is to operate. Since the prevailing political atmosphere will determine the role of government, we shall need to establish a separate framework for each of three assumed conditions: (1) Limited Government Intervention; (2) Economic Totalitarianism and (3) Relatively Free Collective Bargaining. We can predict with a reasonable amount of accuracy what consequences will follow from a labor policy adapted to these frameworks, considered

individually in terms of the task of achieving full employment and the optimum allocation of labor resources.

**Aggregate Wage Income And The Task Of Full Employment**

Full employment, as an economic goal, rests largely on criteria designed to meet the income problem in our labor markets. Borrowing from contributions recently made in the field of agricultural policy, we can define more specifically the income goals of American labor. Three distinct criteria emerge:

1. The achievement of a certain minimum scale of living for all members of society on the basis of social welfare criteria which can be spelled out rather specifically in terms of health, education, nutrition and housing.

2. The reduction of differences in the distribution of income among workers in different labor markets.

3. The stabilization of the aggregate level of income going to workers generally, as an end in itself, as well as a contributing factor in maintaining a high level of consumption expenditure consistent with maximum physical output.

With respect to the achievement of minimum scales of living, even at full employment, there are large numbers of workers unable to sell their services at wage rates high enough to provide adequate health,

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2 Ibid., p. 654.
education, nutrition and housing. Government attempts, in part, to deal with such poverty through the enactment of minimum wage laws. As indicated in an earlier section, however, such legislation merely establishes the lowest wage rate permitted under the law but does not guarantee the worker a market for his services at that rate.

For the vast majority of workers, full employment will provide adequate incomes. The price (wage) mechanism is neither an adequate nor desirable means of providing income for the disadvantaged segments of the labor force. Labor policy therefore should seek to provide direct wage subsidies to these groups. In addition to monetary grants, it would also appear desirable to offer training facilities and moving expenses where individuals receiving low incomes have not had the opportunity to raise their innate productive capacity or have become immobile "due to ignorance, lack of skills, poor health, and insufficient funds to make movement possible."  

The goal of full employment, however, may only partially fulfill the criterion of adequate levels of living if rapidly increasing prices are permitted to affect certain segments of the labor force adversely.

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1In 1941 with unemployment falling to five million, 49 percent of consumer units received incomes of less than $1,500 per year. Among urban consumer units 38 percent received less than this annual income while rural nonfarm consumer units in this category constituted 70 percent of total rural nonfarm consumer units.

2Cf. p. 118.

3Johnson, D.G., op. cit., p. 657.
Limited government intervention

Given a willingness on the part of the American people to accept a minimum amount of government interference with our labor markets, the objective of full employment with a stable price level can be substantially achieved. The bare outline of a labor policy designed to achieve this goal has already been suggested. We must now illustrate more concretely the manner in which this policy is to operate. Figure 16 attempts to show first, the maximum amount of unemployment permissible under the program, second, the maximum increase in prices to be tolerated by the monetary authority and third, the "zone of free collective bargaining" under which no governmental interference will be necessary. Full employment is represented by $G_1$. With a permissible price increase of $P_1P_2$ the monetary authority would not enter collective bargaining negotiations as long as money wage rates did not exceed $W_3$, assuming of course that the level of employment remained unchanged. It is quite possible, however, that the employment level would fall as wage rates approached $W_3$. At $W_2$, for example, equilibrium in the labor market may be obtained by employment falling to $G_2$. If $G_1G_2$ represents the minimum amount of unemployment to be tolerated by the monetary authority, it may be necessary for government to enter collective bargaining negotiations when wage rates have already achieved the level of $W_2$.

The "zone of free collective bargaining" can now be defined in terms of the following benchmarks:

(1) Employment at $G_1$, price rise limited to $P_1P_2 - W_1$ to $W_3$.

(2) Employment at $G_2$, price rise limited to $P_1P_2 - W_2$ to $W_1$. 
That is to say, trade unions may bargain for wages between the limits \( W_1 \) and \( W_4 \) without restraint. At the lower limit, the monetary authority could pursue a successful policy of full employment and a stable price level, while, at the upper limit, the economy would experience a somewhat higher price level, say 8 percent per year, and unemployment not exceeding four million workers.

This deviation from the goal of full employment with stable prices represents the sacrifice society is willing to make to maintain relatively free collective bargaining. Obviously, the price society is willing to pay for such freedom will determine the actual limits used in framing policy.

The proposals offered under limited government intervention need not conflict with the point of view expressed by the supporters of the "restrained bargaining thesis" noted earlier. Should labor and management manifest the responsibility, maturity, and statesmanship attributed to them, government would not intervene, and hence, the parties would negotiate within the framework of "free collective bargaining". We are, in effect, defining quite rigorously the meaning of the term "labor-management responsibility". Government controls are suggested only if that responsibility should fail to materialize.

**Economic totalitarianism**

We can apply the same analysis to a more extreme case. Should society refuse to accept any deviation whatsoever from an employment level equal to \( G_1 \) and a price equal to \( P_1 \) free collective bargaining (with respect to
Figure 16. Limited Government Intervention
wages) could no longer prevail. In effect it would mean that the average level of money wage rates would be fixed by government at $W_1$. Any increases in the wages of workers attached to specific firms or industries could take place only at the expense of other workers suffering wage reductions. However, in view of the three percent increase in productivity which we can expect each year, average money wage rates may increase by approximately that amount without causing prices to rise.

Since commodity prices would also need to be regulated to prevent entrepreneurs from attempting to increase profits at the expense of wages, the monetary authority could cause a three percent increase in real wages by forcing prices down by that percentage each year. There are certain disadvantages connected with this alternative, however. As Hansen has pointed out "wage increases represent tangible and clear evidence of progress to the wage earner. Higher wages in the pay envelope are impressive, lower prices are noticed only vaguely if at all."\(^1\) There are also allocative reasons for preferring wage increases to price reductions, which we shall discuss later.

Although the goal of full employment and stable prices is generally accepted as desirable, it appears to be inconsistent with at least one other frequently supported goal namely, freedom in the disposition of resources. It is sometimes argued that appropriate use of the tax mechanism would be sufficient to guarantee stable prices at full employment, without requiring the use of direct wage-price controls. This

contention is justified under rather restricted assumptions. Figure 17 illustrates the conditions of absolutely stable prices at full employment \((P_1\) and \(Q_1\)) and the corresponding level of national income \((Y_1)\). Given an increase in money wage rates from \(W_1\) to \(W_2\), taxes would have to be raised sufficiently to reduce the level of national income from \(Y_1\) to \(Y_2\), if the price level is to be maintained at its original level \(P_1\). This, however, can only be achieved at the expense of full employment since the number of workers employed would fall from \(G_1\) to \(G_2\). The only other alternative available to the monetary authority is to maintain employment at \(G_1\), but by doing so the price level would necessarily rise from \(P_1\) to \(P_2\).

Obviously, rigid wage and price controls are required for absolute stability. For tax techniques to accomplish the same objective it would be necessary to utilize the plan suggested by Kalecki involving a redistribution of income from fixed income and profit receivers to wage earners.

Relatively free collective bargaining

It should not be inferred from the foregoing discussion that trade union wage policy is responsible for the economy's periodic instability. Thus far we have assumed that the determinants of the national income are given and hence certain conditions must prevail in the labor market.

1See p. 198 above.
for the system to be in equilibrium. For any given wage rate, with the system in equilibrium at full employment, a reduction in the supply of money or investment will cause the level of employment to fall. Public wage policy is therefore no substitute for monetary-fiscal policy, but rather attempts to reinforce the price-employment goals of the government.

If relatively free collective bargaining provides the political framework within which stabilisation policy is to operate, the best we can hope for is full employment and inflation. But the degree of inflation depends on a number of factors. In a dynamic system (as compared to macro-static models used in our discussion), the rate at which prices increase will be governed by the lagged relationships in the system.

Since most collective bargaining agreements are binding for a year or more, the wage adjustment lag will tend to slow down the speed with which prices increase. In this context, "industrial relations policy" can also make an important contribution to price stability. Since the frequency with which collective agreements are broken is largely a function of the ability of labor and management to settle their differences peacefully, a well conceived "industrial relations policy" can do much to prevent wage issues from cropping up before wage contracts have expired.

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Figure 17. Full Employment and Stable Prices
Nevertheless, our major premise still holds — without a labor policy, fluctuations in economic activity will be somewhat greater than they would otherwise be. With a limited amount of control, such fluctuations can be held within reasonable limits. Finally, absolute stability can only be achieved by completely abandoning our existing collective bargaining institutions with respect to wage determination.

The Optimum Allocation of Labor Resources

It is possible to utilize labor (and other) resources fully without, of course, maximizing the total product. A full employment program may not, therefore, achieve its major objective of providing the largest possible output of goods and services desired by society if resources are not allocated efficiently. Although the problem applies with equal force to all productive agents, we shall limit our discussion to labor resources. As a practical matter, however, public policy in this area will prove successful only to the extent that similar policies are pursued with equal vigor in other factor markets.

Fortunately, there has been a recognition of the resources problem by the public and legislation designed to improve the allocation of labor has been enacted. The establishment of the U.S. Employment Service has improved the channels of information with respect to job opportunities. The development of free trade schools in many communities has contributed to a better utilization of existing labor resources.

But only a bare start has been made in the direction of better
resource use. The major areas of waste and inefficiency still face us — trade union restrictionism, immobility of labor, technological unemployment loss of productivity due to illness and strikes. Public labor policy, with respect to these issues, will also be limited by the prevailing political climate and hence our criteria will depend largely on the alternative political framework assumed. We shall employ the same political categories used in the previous section.

It is a generally accepted doctrine of economic analysis that the price mechanism is superior to any other device as a method of allocating resources. Within labor markets, again borrowing from Johnson,¹ the resource problem may be classified as follows:

1. Within firms
2. Among firms
   (a) Among firms in different geographical areas
   (b) Among firms in the same geographical area
3. Allocation of resource use in time

The price mechanism fails to perform its allocative function ideally, however, for several reasons. Although almost half of our labor force is represented by trade unions, and hence wages are not determined by the free forces of the market, workers not belonging to unions are not employed in their most efficient uses. Information concerning labor supplies, wage rates, job openings and conditions of employment for specific firms and industries are not available. Many non-unionized sectors of our labor markets are imperfect on the buying side, being characterized

¹Johnson, D.G., op. cit., p. 635.
by monopsony, oligopsony or monopsonistic competition. Where the labor market is perfect on the buying side, it may be imperfect in the commodity market, thereby resulting in the misallocation of labor resources. For all these reasons, labor resources are not allocated in an optimum fashion. In addition, of course, government contributes to the inefficient use of labor resources through the passage of minimum wage legislation, the establishment of local building codes and the use of protective tariffs.

The existence of powerful trade unions complicates the formulation of a public labor policy with respect to the resource problem. Henry Simons has described the problem this way:

The establishment and preservation of effective competition throughout the labor market is a difficult and forbidding task. Given real competition among employers, one might wisely advocate application to labor organizations of the general prohibitions upon restraint of trade. If trade unions could somehow be prevented from indulging (sic) restrictive monopolistic practices, they might become invaluable institutions. They might then assume their proper role as agencies for making labor articulate politically, for preventing arbitrary and oppressive treatment of individual workers, for rendering special services to their members, and for promoting cooperation with respect to both commodities and the various forms of social insurance. Such policy, however, may seem politically fantastic. The community regards unions as representing the interests of labor generally, rather than as agencies for exploitation within the ranks of labor. Even the weaker groups who largely bear the brunt of such exploitation cooperate with their organized brethren and applaud their conquests.\(^1\)

Perhaps the most important contribution public policy can make to

remedy the misallocation of labor resources is the provision of full employment. Though much will still remain undone, the availability of jobs is an extremely effective force in reducing the exploitation of unorganized labor. Oddly enough, what little empirical evidence there is available indicates that certain groups of unorganized workers have improved their relative wage positions to a more significant degree than organized workers during the 1942-1949 period. Farm laborers and domestic employees are two excellent illustrations. Both groups are also characterized by a high degree of mobility.

In establishing public policy what criteria shall we use to obtain the best use of our labor resources?

The first condition is that the value of the marginal product of a factor is equal to the price of the factor. The second condition is that the value of the marginal product of a factor should equal the marginal opportunity cost of the factor or the factor's marginal value product in its highest alternative uses.¹

The first condition obviously applies to the individual firm's resource problem and departures from this ideal grow out of existing imperfections in both product and factor markets. In the factor market, imperfections on the buying side lead to exploitation of labor and hence to waste and inefficiency in its utilization. On the selling side, the trade union may prevent the employer from purchasing as much labor as he would like to buy; and the employer may also find that he is not permitted to combine other factors of production with the labor purchased.

¹Johnson, D.G., op. cit., p. 635.
in the most efficient manner.

Economic totalitarianism

Assuming complete acceptance by society of the desirability of allocating resources most efficiently and a political framework for the fulfilment of such an objective, what sort of program can we suggest? We would have to assume that, even under such circumstances, it would not be desirable to eliminate the institution of trade unionism and, secondly, price flexibility may lead to undesirable income effects.

Hart has suggested the following wage controls for the purpose of achieving an optimum allocation of labor:

Wage increases should be obtainable through collective bargaining only when the group of workers affected can show
(a) that unemployed workers of the qualifications in question number less than ten percent of those employed, in the labor-market area affected;
(b) that working hours are not unreasonably short;
(c) that there is no substantial number of workers in other employments able to do the work in question and wishing to transfer to it at existing wages;
(d) that the absence of such workers does not result from restrictive practices preventing them from getting training and experience;
(e) that the wage increase is necessary to prevent a labor shortage in the occupation and labor-market area in question.¹

In addition, all forms of union restriction, e.g. feather-bedding,

Entry into specific unions would have to be guaranteed to all workers meeting the requisite degree of training and skill. Government subsidies, encouraging greater mobility on the part of labor, would not only finance the movement of workers from one geographic area to another but in addition, training facilities would need to be provided for workers desiring to change their occupation or to improve their skills.

A national health program would also be required, not only as a means of reducing the tremendous amount of lost time due to sickness and injury, but also as a means of increasing the productivity of the human agent over time.

A tax on excessive profits may also be necessary if such profits are being used to bid up the price of labor in order to attract workers away from other industries.

With respect to "bottlenecks" in particular labor markets, it has also been suggested that the establishment of a highly mobile corps of "industrial commandos", capable of performing a great number of jobs, would relieve any sudden shortage that may arise.

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1 The Taft-Hartley Law attempts, in part, to deal with certain forms of union restriction. Sec. 8 (b) (6), for example, declares that any union causing an employer to pay for services not rendered can be charged with an "unfair labor practice".

2 An increase in the rate of investment will tend to bid up the prices of resources, once the economy has reached full employment.

3 Graham, F.D., Social Goals and Economic Institutions, op. cit., p. 175.
Clearly, the degree of control required to achieve the most efficient use of labor resources so overbalances the amount of freedom labor would have to give up that something less than an optimum allocation will need to be the goal in a democratic private enterprise system.

**Limited government intervention**

It is worth re-emphasizing the contribution that a full employment program with relatively stable prices can make to the resource problem. Since under such conditions the degree of monopoly will tend to fall, the proposals suggested under this same heading in the previous section will do much to facilitate the movement of labor resources to progressively higher uses.

With wage rates inflexible in the downward direction, the allocative process can only come about as a result of some wage rates rising more rapidly than others. In declining industries, wage rates would not increase at all.

Public labor policy guaranteeing free entry into trade unions and also providing training facilities for individuals desiring to acquire new skills would aid the allocative process by exerting internal pressures on the union. That is to say, unions, required to admit all workers at reasonable initiation fees and dues schedules, would find a large portion

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Sec. 8 (b) (5) of Taft-Hartley does not meet this criterion since the N.L.R.B. in considering the reasonableness of the fee is required to take into account the "practices and customs of labor organizations in the particular industry, and the wages currently paid to the employees affected ...".
of their membership unemployed if wage rates were raised too high. In Figure 18, for example, assume the simple case of a monopsonist faced by a trade union — with a wage fixed at OA, the number of workers seeking employment at that wage (and belonging to the union) would be OC, but the employer would only purchase OB units of labor at that wage. BC would therefore represent the number of union members unable to obtain employment at the wage established under the collective agreement. Obviously, the union leadership could not remain in power for any length of time with a large proportion of the membership unemployed. The most sensible approach for a union leader to follow would therefore be one in which the amount of unemployment would be at a minimum, i.e. a wage of OF.

Such a course of action could be guaranteed by imposing limitations on the wage increases a union may obtain until the volume of its
unemployed membership falls to some specified level. Assume, for example, that five percent of the workers in a particular labor market are unemployed, but a union, in the same labor market, has ten percent of its membership out of work. The union would be subject to a wage "freeze" until the relative amount of unemployment among its membership fell to (say) 8 percent. Some flexibility above the area percentage would be desirable in order to account for peculiarities to which particular industries may be subject. Moreover, unusual cases could be handled by placing the burden of proof on the union. It would be required to offer convincing evidence that the magnitude of its unemployed membership was not related to the union's wage policy.

Even under limited government intervention, retraining facilities and moving subsidies would be required to facilitate greater labor mobility. Moreover, a national health program would aid immeasurably in reducing the tremendous waste of labor resources due to sickness and accidents. There is a marked inconsistency in the public's attitude toward the waste of human resources due to strikes and the even more significant loss of man-hours resulting from illness. If this concern is real, both forms of waste must be viewed in proper perspective.

Finally, we come to the matter of strikes. Admitting that the strike is labor's major weapon in the settlement of grievances, it is also a weapon whereby labor may enforce the kind of resource allocation it prefers over that preferred by society. An "industrial-relations policy" is best adapted to the solution of non-wage disputes. With respect
to wage questions, the probability of strikes occurring rests largely on the gains to be achieved by using the weapon. If, as suggested above, bargaining for higher wages also means bargaining for higher taxes, we can expect unions to use some restraint in utilizing the strike weapon as a means of enforcing their demands. As a general principle, however, the outlawing of strikes is consistent only within a framework of economic totalitarianism.

This is true even for labor resources having the highest priority, namely, those attached to industries affected with the national health and safety. With regard to this latter category of workers, their unique importance in the operation of the economy should be reflected in the wage structure. That is to say, their remuneration should be commensurate with the high value society places on their services. Preventing strikes in this area can only result in the creation of labor scarcities. Since the strike is frequently a determinant of wages or other attributes of a job, restrictions on its use may also have allocative effects. Faced with the choice of job opportunities, it seems reasonable to assume that workers would prefer employment where exercise of the strike weapon is not excluded. To the extent that labor is not attracted to a particular occupation or industry because of such strike limitations, this eventually will lead to an increase in wages sufficient to meet society's needs for such services. This process is in itself wasteful since the public, by preventing strikes, is in effect refusing to recognize that a contradiction exists between their professed demand for
such services and the resources required to produce them. The strike therefore performs a valuable function in the sense that it clarifies this contradiction.

**Relatively free collective bargaining**

With imperfect factor and product markets, relative freedom in collective bargaining is achieved at the expense of efficient utilization of labor resources. This is not to say that such misallocations are perpetuated by these imperfections. There are forces at work tending to break down artificial barriers to labor mobility resulting from distortions in the wage structure. Hence, it is over relatively longer periods of time that improvements in resource use take place.

As Dunlop has pointed out, expanding industries tend to attract new workers by offering wage rate increases in excess of the average increase in productivity for industry as a whole, while declining industries increase wage rates by something less than the average increase in productivity.¹ Moreover, the rise in prices in industries in which the increase in productivity is less than the average tends to accelerate the relative or absolute contraction of employment in such industries. The failure of prices to fall in industries with greater than average increases in productivity, as far as they might otherwise, tends to restrict the expansion of employment from what it would otherwise be. These relatively adverse effects on employment constitute the short-run effects of movement toward the

longer run equilibrium position in which the average wage level is adjusted to an increase in average productivity.¹

Under relatively free collective bargaining, society must be content with the kind of allocation that the passage of years will ultimately grind out. Given an abundance of all resources and the vast output potential of the United States, under conditions of full-employment, there are some who believe that we can afford the luxury of labor inefficiency (relative to the output we can achieve under optimum conditions) since the alternative may involve a degree of government intervention conflicting with our accepted standards of economic freedom. The apparent exception to this proposition applies to the enormous waste resulting from large-scale unemployment.

As a matter of policy, however, there are certain supplementary controls which may conflict with the ideal allocation of labor resources but are required for other reasons. Minimum wage legislation is an appropriate device for preventing exploitation providing all workers are covered and society refuses to accept either limited government intervention or economic totalitarianism. Where moving subsidies and retraining facilities are provided, however, the increased mobility of labor should be sufficient to prevent exploitation. Moreover, even without increased mobility, income subsidies would be preferable to minimum wage laws since low wage rates may manifest low productivity rather than

¹Ibid., p. 347.
exploitation and the establishment of such minima would lead to unemployment.

Jurisdictional disputes frequently arise as a result of inter-union rivalries. Because of the hardship which innocent employers and the public are subjected to, legislation attempts to outlaw such conflicts. The Taft-Hartley Law, for example, bars jurisdictional disputes of the "job or trade type" in the sense that the NLRB may determine the proper jurisdiction if the parties are not able to reach a settlement themselves.

Compulsory arbitration is but one of the remedies proposed for work-jurisdiction disputes. Under Section 3 (b) 1 & D, it is an unfair labor practice for a union to force or to require any employer 'to assign particular work to employees in a particular labor organization, or in a particular trade, craft, or class ...'. Action of the board respecting this kind of unfair labor practice may be enforced in situations where such relief is appropriate under Section 10 (k) (l). This section provides for priority treatment and allows a petition for 'appropriate injunctive relief pending the final adjudication of the Board ...'. Under Section 10 (k), the National Labor Relations Board 'is empowered and directed to hear and determine the dispute'. In addition under Section 303 (b), 'whoever shall be injured in his business or property' by a work-jurisdiction dispute may sue therefore in any district court.

Under certain circumstances, however, jurisdictional disputes have desirable allocative effects and hence it is not in the interest of the economy to lay down unconditional prohibitions against such contests. Moreover, each case must be evaluated on its own merits. The mere fact that a union has traditionally regarded a job as falling within its "territory" should not provide the union with an everlasting claim to that job.

Where inter-union political rivalries are not responsible for jurisdictional contests, under what conditions will desirable allocative effects take place? The principle involved can be illustrated in the following manner. Assume (a) two unions, A and B, (b) a single job already divided in some fashion between the workers belonging to the unions concerned and (c) one of the unions manifests a desire to extend its sphere of influence over the "job territory" of the other union. Figure 13 describes the foregoing diagrammatically. Before the dispute arises, the job is divided between the unions such that Ox workers in Union A and O'X workers in Union B are employed. If now Union A should wish to extend its influence by increasing the number of its members employed on the job, at the expense of workers belonging to Union B, it will seek a redivision such that (say) OY of its members will be employed while only O'Y workers in Union B will work on the job. That is, Union A attempts to increase its share of the job by an amount XY.

Obviously the question raised by this conflict, of interest to the economist, is whether the redivision contemplated by Union A is superior
to the old division in terms of productivity. The results of the re-allocation of labor in favor of Union A are also shown in Figure 19.

H plus R represents the gain in productivity resulting from Union A extending its influence by an amount XY laborers. R represents the loss of productivity occasioned by the withdrawal from the job of XY laborers belonging to Union B. Subtracting the losses from the gains (H + R - R) we have a net gain of H resulting from Union A extending its influence over the job. Any additional encroachment by Union A (beyond point D) however, will result in a net loss in productivity. The optimum distribution of labor between the two unions is at the point where their respective marginal productivities are equal.
Even if no strike of a jurisdictional nature is contemplated by either union and the job is divided between the unions in such a manner that a reorganization would result in a superior allocation of labor, a strike may actually be desirable. This judgment, however, must be based on the anticipated loss in output resulting from the strike as compared to the gain to be derived from the final reorganization.

With respect to political rivalries, the issues are not clearcut either.

There may be occasions when the only way a group of unionists can escape from corrupt, or inefficient, or unduly conservative, or unduly radical leaders is to set up a new union or join an old one, and then engage in a jurisdictional dispute with the organization to which they formerly belonged.1

We may sum up by pointing out that the allocation of labor resources deviates from the ideal when trade unions are permitted to bargain collectively without restraint. But there are union policies which promote increased productive efficiency as well. Demands for improved working conditions — better sanitation, ventilation, use of safety devices — tend to raise output. The union's demands for increased security and status for the worker in the form of tenure provisions, prohibitions against arbitrary discharge and grievance procedures are perhaps even more important in their effects on increased productivity. The interest of such unions as the ILGWU in the overall efficiency of

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the garment industry and the better utilization of equipment and man-
power in particular firms causes output per man to increase. The
productivity of labor resources over time is also enhanced by union
pressure for a shorter day. Also, where higher wage demands lead to
the substitution of machinery for labor, not only are workers relieved
of their former arduous tasks but they in turn become available to those
industries in need of more labor. There seems to be some evidence that
trade union leaders are becoming increasingly aware of the close relation­
ship between the welfare of the membership and the efficiency of the
industry employing the rank and file. Unfortunately, however, union-
management cooperation in this area has occurred mainly as a result of
adverse business activity affecting the firm or industry concerned.\(^1\)

It is impossible to determine the extent to which the previous policies
of trade unions contributed to the decline in a firm's business position.
The introduction of substitute commodities, changes in tastes and the
degree of competition in the product market are all contributing factors.

Since the resource problem is a compound of the imperfections in all
factor markets, attempting to allocate labor resources efficiently pre­
supposes a degree of efficiency in the use of other resources which may
in fact not exist. Hence, a large part of the question we are attempting
to solve will ultimately rest on our ability to reconcile the economic
interests of opposing groups. This is largely a political problem.

\(^1\)Shister, J., "Union-Management Cooperation: An Analysis", in
Insights into Labor Issues, edited by Lester, R.A. and Shister, J.,
The Political Problem

Perhaps much of the discussion thus far has been both academic and naive since economic policies, no matter how reasonable, affect men and organized groups. Moreover, the state as an instrument of national policy, is not an objective impartial instrument but is subject to the control of men and groups. Although the social scientist frequently delimits the functioning of the state to that of impartial overseer and enforcer of the "rules of the game" — a mirror of reality would represent the state, however, as both rule-maker and participant in the game. And certainly it is neither impartial nor objective.

We have therefore endeavored to prescribe policy according to rules that might conceivably be established for three different "games": economic totalitarianism, limited government intervention, and relatively free collective bargaining. There are, of course, an infinite number of alternatives lying between the benchmarks we have used. Within the categories we have employed, however, there is the additional separation of the income problem from the resource problem. Hence it is also possible to combine, for example, limited government intervention with respect to the first and relatively free collective bargaining with respect to the second. It may very well be that the members of society place a much higher premium on freedom in the disposition of resources than they regard attempts to cope with unemployed resources generally.

In any case, there is still the political problem of giving effect to any economic program which works to the disadvantage of some particular group but benefits the remainder of society. Since departures from the
status quo are always harbingers of uncertainty for all groups, and embarking on new programs may bring along with them unforeseen circumstances, there is a general reluctance to delegate new powers to the state even under the most promising conditions.

Though there is every reason to believe that all interested parties are to be represented in democratic planning, there are still fears that public officials will go beyond the bounds of authority vested in them. For, as Reinhold Niebuhr has so very well stated:

All social cooperation on a larger scale than the most intimate social group requires a measure of coercion. While no state can maintain its unity purely by coercion, neither can it preserve itself without coercion. Where the factor of mutual consent is strongly developed, and where standardized and approximately fair methods of adjudicating and resolving conflicting interests within an organized group have been established, the coercive factor in social life is frequently covert, and becomes apparent only in moments of crisis and in the group's policy toward recalcitrant individuals. Yet it is never absent. Divergence of interest, based upon geographic and functional differences within a society, is bound to create different social philosophies and political attitudes which goodwill and intelligence may partly, but never completely, harmonize. Ultimately, unity within an organized social group, or within a federation of such groups, is created by the ability of a dominant group to impose its will.¹

It is this last point, made by Niebuhr, which leads to the major obstacle to planning in democratic societies. By their very nature, democracies are peculiarly unstable political institutions. As long as the delicate balance of power is maintained, they function successfully. But the balance is constantly threatened by a variety of economic

crises. And, unfortunately, attempts to lessen the impact of such crises are also political issues.

Complicating the matter of reconciling opposing interests is the notion that a reconciliation is impossible. It is frequently held that the issues involved can only be settled by eliminating the opposition. Mills, for example, states that "the state, in the interests of domestic stability and international security, increasingly appropriates the aims of the employer and expropriates or abolishes the functions of the unions."\(^1\) Moreover, he claims that union leaders are partially responsible for this development for, as they continue to seek protection from the state, they slowly hand over their authority to the state. This, according to Mills, is exactly the method of eliminating the trade unions preferred by the more sophisticated employers. Eventually, an employer dominated bureaucracy will force trade unions to "cooperate" with business units by forcing the leaders to discipline the rank and file in order to sanctify labor contracts and achieve stability.\(^2\)

In opposition to the point of view expressed above, two considerations need to be underlined. First, employers as a group, have conflicting interests and hence, are fearful of the power of the state. Secondly, labor has in recent years displayed political potentialities which, if effectively pursued, could throw the balance of power on the side of


\(^2\)Ibid., pp. 235-238.
the trade unions, leading to what Slichter has perhaps prematurely called the "laboristic state".

Success in dealing with economic problems on the political plane will therefore be achieved only when all groups are willing to recognize that the state can play a disinterested role, if that role were clearly defined and agreed to by all interested parties. This in itself would be quite an achievement and the difficulties involved are not to be minimized. In principle at least, it should be possible to establish impartial rules of economic behavior, administered without the use of arbitrary power.

**Foundations of economic discord**

There are two rather broad areas of conflict that contribute to industrial turmoil. They grow out of a divergence of interest between labor and management and can be conveniently classified in terms of their scope. These "conflict horizons" involve micro-economic interests and macro-economic interests. To the former we attach the classification of industrial differences, used by Pigou, relating to (1) questions of wage determination and (2) "demarcation of function".¹

Questions relating to wage determination fall under the following heads:

(1) Those connected with the reward of labour, generally raising an issue as to the money rate of wage, but

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sometimes touching such matters as workshops fines or the amount of special allowances, whether in money or in kind;

(2) Those connected with the doing and bearing of the employees, generally involving the question of hours.

Differences as to demarcation of function include, besides the well-known, but relatively unimportant, 'demarcation disputes' between kindred trades, all quarrels arising out of claims by the workpeople to a larger share in the work of management. They generally relate to:

(1) The way in which work is apportioned between different classes of workmen and machine tools; or
(2) The sources from which the employer draws his workpeople; or
(3) The voice allowed to workpeople in the settlement of working conditions.

The second of these subdivisions includes all questions concerning discrimination against, preference to, or exclusive employment of, trade unionists.¹

Industrial conflict, however, is not restricted to the immediate interests of workers and employers in specific firms and industries. There are also differences involving broader issues. They stem from the uncertain movements of macro-economic magnitudes and manifest themselves in the form of fears, desires, insecurities and suspicions. Furthermore, these manifestations are not directed toward individuals as such, but rather toward groups or symbols or institutions. Desire for status, fear of an impending depression, suspicion of the motives of employers are illustrations of the foregoing. In this connection, it should also be pointed out that the foundations of economic discord do

¹Ibid., p. 45.
do not simply apply to homogeneous masses of labor confronted by homogeneous groups of businessmen. Conflicts cut across classes; they may involve spatial differences, competing technologies and predatory exploitation of the unorganized sectors of the community.1

The market place obviously attempts to reconcile conflicting interests through the operation of the price mechanism. But the desire on the part of all groups to by-pass the market in order to obtain some advantage contributes to further conflict. Hence, the availability of "extra-market operations";2 that is, techniques which lie outside the framework of the market, makes the problem of reconciling economic conflict the more difficult.

Walker provides a number of useful categories for the classification of these "extra-market operations":

1. Violence by one economic unit against another
   (a) Violence to person, including physical compulsion or restraint
   (b) Violence to property, forcible dispossession or destruction

2. Specific instructions by one economic unit to another
   (a) Backed by individual power including threats of violence or of damaging business policies, such as price-cutting or boycott
   (b) Backed by authority in an organization, including the power of the government or its agencies over the subjects of the state or the power of majority stockholders over others or the power of a bank over its debtors.

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3. Informal influence (without explicit instructions or rules) of one economic unit over the decisions and behavior of another
   (a) Control of psychological conditions in which decisions are made, including: the parade of power without direct threats, pressure for immediate decisions, appeal to sentiment
   (b) Control of relevant information

4. Establishment (or alteration) of general rules, binding on other economic units
   (a) Enforced by an organization
   (b) Enforced by social approval or disapproval

One may claim that these techniques are not in the nature of economic operations, but simply alternative political means for the attainment of certain market objectives. But as Knight has indicated:

   The political and economic structures of society are so closely interrelated that they are ultimately little more than aspects of the same organization. The problems or issues with which modern society has to deal arise predominantly in the field of economic life, and particularly in connection with the terms of economic association and cooperation.

Since the automatic operation of the market no longer plays the role of conciliator of conflicting interests, the state must assume control of these "extra-market operations". The choice of control may take the form of direct intervention or prohibition. Edwards, for example, proposes the following policy with respect to labor markets.

   Competitive policy should include enactment of a law distinguishing commercial competition from labor relations and subjecting unions fully to the anti-

1 Ibid.

trust laws in so far as their activities are directed
toward control of the former.1

Alternatively, the state may attempt, by the use of its taxing power, to
force the conflicting parties to take the price mechanism into account
as they pursue their objectives. Insofar as the state is able to dis­
courage the use of "extra-market operations" by re-introducing price
considerations into the conflict, it can thereby avoid the use of
arbitrary administrative power in the settlement of disputes. But such
a program must attack such operations impartially and on an equalitarian
basis if it is to succeed at all.

The reconciliation of opposing interests

Although many problems involving a conflict of interest among groups
are of a political nature, there are some, of an economic nature, that
are capable of solution by economic means. The field of welfare economics
attempts to provide techniques for the reconciliation of such conflicts.
The policy maker, in passing judgment as to the possible measures to be
used in the settlement of disputes may, for example, use the following
classification:

(1) measures which increase somebody's income without
causing a decline in anybody else's (the extreme
case under this heading is that of measures which
increase everybody's income);

(2) measures which decrease somebody's income without
causing an increase in anybody else's;

1Edwards, C.D., Maintaining Competition, McGraw Hill Book Co., New
York, 1949, p. 57.
(3) measures which increase somebody's income so much that they can afford to compensate fully everybody whose income has been reduced by the policy in question; and

(4) measures which increase somebody's income, but not sufficiently to enable them to compensate fully everybody whose income has been thereby reduced.\(^1\)

With regard to measures falling within classes (1) and (2), obviously, no conflict of interest arises. Moreover, policies classified under case (1), i.e., maintaining full employment, may have secondary effects whereby measures falling under classes (3) or (4) will not need to be utilized. As indicated previously, however, even under full employment individuals engaged in particular occupations and industries may be subject to special insecurities and hence, they may desire to secure privileges for themselves.\(^2\)

The compensation principle has recently come under attack and consequently cases (3) and (4) have only limited applicability.\(^3\) It is therefore necessary to formulate other means by which groups receiving special protection at the expense of the rest of the community will relinquish their positions of advantage. In principle, the compensation doctrine is still valid, if not on economic grounds, certainly in terms of sheer political necessity. This does not mean that "full compensation" need be given to those whose incomes have been reduced as a result of

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\(^2\)See p. 93 above.

some governmental policy.

The community or the State may attach a certain "marginal social significance" to the various interest groups in the economy and hence, partial compensation may be provided or in the extreme case, no compensation whatsoever. Moreover, the form of compensation need not be cash, but instead may involve moving allowances, retraining facilities or other incentives which groups may willingly exchange for their former positions of advantage.

Questions of economic policy today reflect, on the one hand, attempts on the part of groups to by-pass the market and secondly, an increasing tendency for price making to find its way into the political arena. It is, therefore, not surprising that political problems seem to pervade most economic discussions. We have endeavored to suggest ways by which conflicts of interest may be reconciled by economic means. There are, however, legal prohibitions that can also be used. Thurman Arnold suggested the prohibition of five union practices which he felt were of a monopolistic nature.2

(1) Exerting economic pressure on employers in order to prevent the introduction of more efficient methods of production.

(2) Forcing employers to hire more labor than a job required.

(3) Racketeering by trade union officials.

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1See Tintner, G., op. cit., pp. 69-78.

(4) Compelling business establishments to observe a uniform price policy in order to prevent price cutting in the industry.

(5) Jurisdictional disputes.

Clearly these prohibitions do not strike at the heart of the labor problem. They represent rules of behavior to be followed by the trade unions without attempting to deal with the basic causes of such conduct. As Boulding has pointed out, "... protectionism generally is the only recourse of a single group faced by a general deflationary movement, in the absence of any general political or economic solution."\(^1\) It is quite likely that, with reduced uncertainty and "framework incentive planning" in our factor markets, the desire for monopolistic restrictionism will not be as strong as it now is. Where "prohibitions" are required, economic sanctions in the form of special taxes or direct wage controls are more efficient than mere legal coercion. The previous discussion of "extra-market operations" would seem to bear out this contention.

The democratic solution in theory and practice

... the real essence of democracy seems to be not a form of government, a sum of institutions, etc., but a certain real attitude in life, behavior of a certain kind, not only in state matters but generally in relations between men. This attitude has some characteristic similarities

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to the role of the judge or the juror, rather than to the fighting of interests. The state is viewed not as a governing body, but as the guarantor of justice and reason which has not to create law but to fulfill it, to realize it by making the rules.¹

In establishing rules, however, it may also be necessary for the democratic state to intervene in the affairs of groups. There are some who are not willing to play the game according to established rules; there are others who belong to minority groups and are in constant danger of having their freedom suppressed by the majority. But the state cannot simply limit its intervention to these infractions. It has special goals to achieve for its citizenry and they in turn impose limitations on the means by which the state may achieve these goals. As Barker has stated:

One of the problems of the democratic State is to adjust process to its aim, and to ensure that the free movement of general opinion is not inimical to the free action of human beings. In the second place, the end or aim of the democratic State demands a constant and complicated intervention, above all in the sphere of economics. The liberty of all, shared equally by all, is so far from being a natural condition that it may be described, without any paradox, as the most artificial of all conditions. It is so far from existing without intervention that it can only be created and maintained by means of intervention. To introduce the spirit and method of liberty into the system of economics — not for employers only, but also for workers; not for employers and workers only, but also for others who are also concerned — involves an interference with the natural order which is perhaps greater than any other object could involve. It is comparatively simple to intervene in the system of economics with a view to securing the maximum production of national wealth,

or the maximum insurance of national power or national independence. It is a more complicated matter to intervene in the system with the object of securing the maximum energy of individual freedom for all alike, without any respect for persons.¹

The democracies have now reached their ultimate test. They are confronted with the task of carrying out a program of abundance. But programs involve plans and our legal structure as well as our institutions are geared to the doctrine of laissez-faire. Labor policy must eventually find its place in a comprehensive, consistent program of abundance involving governmental intervention and restraint. As a general proposition:

The role of law in labor controversies deals with the formulation of social and public interests which take precedence over rights and interests asserted by given persons or groups at given times and places.²

Our present "industrial relations policy" seeks to obtain peace and harmony between labor and management with little or no relation to the other economic goals we have committed ourselves to. It undoubtedly meets one of the criteria for planning in a democratic State, which is perhaps the least objectionable, namely, "much of the adjustment of economic claims and counter-claims can be achieved, and should be achieved, at a stage which is prior to the action of the State."³

³Barker, E., op. cit., p. 255.
However, when the State finds it necessary to direct economic activity or, on occasion, to restrain or coerce particular groups, there is an implicit threat that its influence may go beyond the bounds of safety. Yet the effects of unrestrained activity on the part of organized groups — business, labor and agriculture — pose an equally serious threat to democratic institutions. With another depression or serious inflation as the price of non-intervention, we may find the State forced to undertake a degree of control far in excess of that required to stabilize the economy at full-employment. The excesses of Statism are fundamentally correlated with the urgency and pressure of the time. Barker states the argument in the following terms:

The idea of the standing emergency is a recurrent idea in politics. It is the standing temptation both of governments and of ardent reformers. It encourages governments to substitute the method of dictation for the process of deliberation. In emergency, action must come first, and deliberation, if it comes at all, must follow on the heels of action. Similarly it encourages the ardent reformer to substitute the method of revolution for the process of persuasion.¹

Our ability to develop the requisite degree of skill in formulating democratically conceived and administered controls will ultimately determine the fate of free societies. Given the economic goals, the economist can point up the alternative means; it remains for the political scientist to find a satisfactory solution on the political plane.

¹Ibid., p. 196.
GENERAL CONCLUSIONS

1. With relative equality of bargaining power between labor and management established, public policy must now concern itself with the economic consequences of wage-price determination on the part of trade unions and business firms.

2. Industrial relations policies are appropriate as a means of settling industrial conflict. More important, however, are the independent actions of trade unions and business firms which do not give rise to conflict but manifest their effects on the level of employment and the allocation of resources.

3. The absence of public policy in this regard has compelled trade unions and business firms to deal with their own special problems through the "process of adaptation".

4. The "process of adaptation" takes a number of forms designed to meet the following variety of circumstances:
   a. Insecurity and uncertainty growing out of technological change.
   b. Desire to maintain a particular job for the purpose of avoiding the problem of relocating in a new community, firm or industry.
   c. Desire to increase income, status and prestige by means of restriction or the use of "non-economic codes of conduct".
   d. Fear of suffering a reduction in income due to cyclical fluctuations in business activity and employment.

5. The cumulative effects of the "process of adaptation" as well as the rapid rate of economic progress are responsible for secular
misallocations of labor.

6. Labor markets exhibit secular maladjustments with respect to supply in terms of regional variations in population growth and the disparity between actual increases in population and the rates of increase required for the maintenance of economic progress.

7. Secular maladjustments also appear on the side of demand and are largely a function of technological change and alterations in consumer's preferences.

8. With the development of new techniques, labor orientation becomes less of a factor in the determination of industrial location. Because of increased locational flexibility, secular labor policy must direct its attention toward narrowing the discrepancies between the regional demand and supply of labor resources by increasing the mobility of all factors of production.

9. The "process of adaptation" as well as secular labor market maladjustments can be overcome by remedying the periodic fluctuations in income and employment.

10. Recognition of "full employment" as a continuing policy of the national government has already been established. Unless an integrated public labor policy is also undertaken no real solution for the problems already enumerated will be achieved. Moreover, serious difficulties, involving continuing inflation, will arise should labor policy be divorced from the goal of "full employment".
11. Public labor policy must concern itself with two separate problems: (a) the income problem and (b) the resource problem. The political climate, however, will determine the means appropriate for each of these.

12. Integrating public labor policy with the goal of full employment, such that the optimum allocation of labor resources and stable prices are achieved, can only be accomplished under "economic totalitarianism".

13. Under "relatively free collective bargaining" a "full employment" program will not mitigate the resource problem and continuing inflation will prevail.

14. With "limited government intervention" arbitrary limits must be established with respect to permissible unemployment and price fluctuations. Such flexibility, however, reflects the price society must pay for maintaining some degree of freedom in the disposition of resources.

15. Although it may be useful, analytically, to assume the existence of separate political categories, in reality combinations of the political frameworks, mentioned above, may prevail. The acceptability of specific proposals in each category may be modified by the use of "framework incentive planning" and the "principle of compensation".
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Mathematical Model of A Macro-static Economic System

**Major Relationships**

- $M^g = M^d(Y, r)$, Liquidity function - equilibrium condition
- $S(Y) = I(Y, r)$, Savings - Investment function - equilibrium condition
- $Y = PX$ Definition of Income
- $X = X(N)$ Production Function
- $W_0 = PX(N)$ Definition of Money Wages
- $N = F(N)$ Demand for Labor
- $V = \frac{dX}{dN}$ Real Wages

**Where:**

- $M^g$ = Supply of money (autonomous)
- $M^d$ = Demand for cash balances
- $Y$ = National income in money terms.
- $I$ = Investment
- $r$ = Rate of interest
- $S$ = Savings
- $X$ = Physical output
- $P$ = Price Level
- $N$ = Number of Workers
- $W_0$ = Money wage rate (autonomous)
- $V$ = Real wage rate