AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON MASSACHUSETTS

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Pseudo vs. Real Collective Bargaining

The report of the board of inquiry on the coal strike, the return-to-work order of the Federal District Court, and the temporary injunction issued against the United Mine Workers and John L. Lewis indicate clearly that much of the present labor difficulty is attributable to an absence of genuine collective bargaining.

Since a month or two prior to the termination of the national bituminous-coal wage agreement, the coal operators and the United Mine Workers have attempted to bargain collectively on six occasions. On four of these occasions conferences were ended without the parties having been able to reach an agreement. On the remaining two occasions the union first refused to attend a conference arranged by the Federal Mediation and Conciliation Service and then rejected the President's proposal to establish a fact-finding board that would be authorized to make recommendations to the two parties.

The board of inquiry that investigated the issues involved in the dispute has emphasized in the following statements the fact that there has not been "genuine collective bargaining."

"Eight months of collective bargaining were described by the parties themselves as having yielded only a 'fantastic' assortment of vague demands, with futile sparring at 'perfunctory' conclaves. There were repeated references to the waste of time which had occurred while the parties stood alternately in ceremonious insistence upon what would invariably be described subsequently as 'condition's precedent.' The impression conveyed was that in long months of bargaining *the real issue in the case had never actually been joined.* [Italics supplied.]

" * * * The parties were questioned on why collective bargaining had apparently been so barren. The answers offered were plainly inadequate.

" * * * The operators and the union have bargained either with too great emphasis on tactical advantage or too little confidence in their ability to reach an understanding. In other words, they have not allowed collective bargaining to function freely and effectively."

That the union has been primarily responsible for the absence of collective bargaining, in the eyes of the law at least, is substantiated by the temporary injunction issued by the Federal District court. This injunction order that the United Mine Workers of America and all persons connected with them are "* * * restrained and enjoined * * * *from refusing to bargain collectively with the employers.*" [Italics supplied.]

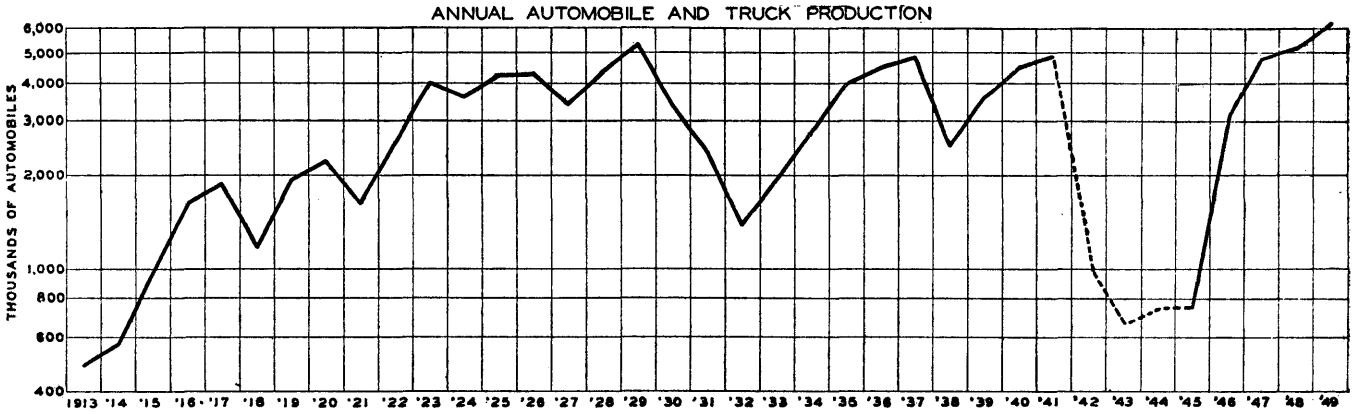
Why Pseudo Collective Bargaining?

Nowhere in the report or in the court order, however, can one discover an explanation for the failure of the parties concerned to bargain collectively. An explanation is suggested in the return-to-work order of the court. The defendants indicated by the court are the International Union, the United Mine Workers of America, and John L. Lewis versus 96 coal-mining companies and coal operators' associations. The monopolistic position of the union is vividly brought home to the reader when he sees that the dispute is between one group described in five lines of print and a second group that requires 130 lines for the listing of its numerous members.

Before continuing we shall try to make clear the problems involved in "collective bargaining." This term has been defined as "the meeting in good faith of employers with representatives of their employees for the purpose of discussing and *ultimately agreeing* upon wages, hours of employment, working conditions and the like."[1] [Italics supplied.] In some instances the courts have ruled that collective bargaining has not occurred unless proposals are made by the employees and counterproposals are made by the company if an agreement is not immediately reached. (In the present dispute the board of inquiry has said, " * * * the union's stated position remains one of refusal to specify any amount [for wage and welfare-fund increases]. The operators' stated position is that no increase whatsoever is warranted.") In order for collective bargaining to be effective, the bargaining power of the two parties obviously must not be too unequal. If one party has monopolistic power over any one of the three factors of production (land, labor, or capital), an agreement may never be reached until the demands of that party are met.

Mr. Lewis' union now has such a monopoly. For all practical purposes the union controls the coal-mining labor force completely. Mr. Lewis has the unique power to close the Nation's mines almost at will. Furthermore, the Federal, State, and local governments have strengthened this monopoly power by providing relief to striking miners. Two or three decades ago the monopoly power of the union was limited by the fact that the

[1]H. S. Sloan and A. J. Zurcher, *A Dictionary of Economics* (Barnes & Noble, Incorporated, New York 1949). " 'Good Faith,' according to the NATIONAL LABOR RELATIONS BOARD, consists of 'a forthright candid effort to reach a settlement.' "



miners could not remain on strike for long and still obtain their minimum needs for food, clothing, and shelter; but today, by giving up his surplus over minimum needs, the miner can remain on strike indefinitely. As long as the union is able to maintain this monopoly power, effective collective bargaining should not be expected.

What Is the Solution?

Before the unionization of the miners, the situation was almost completely reversed from that of today. The individual miner was virtually at the mercy of the operator. Because of the relative immobility of most miners at that time, the operators were in a position that gave them a bargaining advantage. Therefore, we believe that destruction of the union and a return to preunion conditions is not desirable. Nor would organizing the operators in order that they may have a monopolistic position comparable in strength to the union be a satisfactory solution. The advantages of collusion against the public welfare would be so obvious that the public would be at the mercy of the two giant monopolists. Whether they agreed on means of "holding up" the public or disagreed over the division of the spoils of monopoly, the public certainly would suffer.

The solution probably is to be found in some means of nearly equalizing the bargaining power of the two factors of production and at the same time preserving the industries' place in a competitive economy. In the limits of this article we can only suggest the lines of approach to the problem.

A condition of no unions and no industry associations, for example, certainly is not desirable. On the other hand, a union controlling the labor force of an entire industry or an association of managers controlling an entire industry is equally not desirable. Questions that then remain to be answered include, Should unions be restricted to the employees of one company? Should unions be restricted to employees in one State or other geographical area? Neither the fact that questions such as these cannot be answered at present nor the fact that the answers may be subject to many qualifications and testing in practice invalidates the fact that something should be done to eliminate the monopoly powers of some unions. Elimination of monopoly power and privilege is necessary if labor and management are to function in circumstances conducive to genuine collective bargaining.

Conclusion

In our article, "Steel 'Fact' Finders Report" (see Research Reports, *September 19, 1949), we stated that "the board's most significant findings were that, as a result of industry-wide bargaining, ' * * * there is frequently little or no serious bargaining or discussion between most of the individual employers and the union.' " Until the problem of nearly equalizing the bargaining power of labor and management (without creating great management and labor monopolies) is solved, genuine collective bargaining is not to be expected.*

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 90.7 percent of capacity for the week ended February 18, 1950, was 1 percent less than production in the preceding week and was 5 percent less than that in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
Percent of capacity†	87	27	85	31	100	91p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.84	1.91
Production (Million Tons)	1.20	.41	1.28	.48	1.84	1.74

Automobile and truck production during the week ended February 11, 1950, in the United States and Canada was estimated at 130,640 vehicles, compared with a revised total of 127,428 vehicles for the previous week. General Motors and Ford increased operations in their plants during the week.

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
Vehicles (000 omitted)†	119	33	72	58	109	131p

Electric-power production in the week ended February 11, 1950, decreased to 5,970,919,000 kilowatt-hours from 6,062,095,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
Billion Kilowatt-Hours†	1.72	1.58	2.20	2.05	5.72	5.97

Lumber production in the week ended February 4, 1950, decreased. *The New York Times* seasonally adjusted index was 18 points below that for the previous week and was 13 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1949*	*1950*
The New York Times Index†	137	37	81	77	90	77

†Latest weekly data; corresponding weeks of earlier years
p=preliminary

Automobile Production

Automobile and truck production in 1949 (based on factory sales) was approximately 6,240,000 vehicles, a new all-time high. Output in 1949 exceeded that of 1948 by 1,000,000 units and was 900,000 units greater that the previous high reached in 1929.

Most of the companies in the industry have announced plans for increasing output substantially during the first quarter of this year. Output of certain makes is expected to exceed the all-time highs reached in some

months in 1949. By the second week of January, prior to the Chrysler strike, output had reached the weekly high level reported last September.

The prewar pattern of production apparently has been resumed. Prior to the war a seasonal high usually was reached in April, and thereafter production decreased to a seasonal low in August or September. Although improved retooling techniques may change the seasonal pattern somewhat (the period of shut-downs may be shortened), the buying habits of the public probably have not changed greatly; and demand probably will be greatest during the first half of each year. Prior to the war 60 to 70 percent of dealers' annual sales occurred during the first 7 months. Therefore, although new monthly production records may be established next March and perhaps in April, such high levels of output probably will not be maintained during the third quarter.

A recent survey sponsored by the Federal Reserve System[2] indicated that the "financial ability of consumers to own automobiles is greater than before the war." Although the facts appear to confirm this statement, the propensity to buy automobiles may not be so great as the income data suggest. A shift in consumer demand for other durable goods, such as television sets, electrical equipment, and housing, may have resulted in a somewhat different spending pattern than that which existed before the war. Furthermore, more durable construction of automobiles may encourage consumers to retain the family car somewhat longer. (We have previously warned that estimates of the replacement demand for automobiles based on the present average age of automobiles may be misleading.)

We conclude that recent widely publicized estimates of demand for automobiles may be somewhat overoptimistic and that a seasonal curtailment next fall comparable in magnitude to those that occurred before the war is probable. However, in view of the highly elastic nature of the demand for automobiles, moderate reductions in prices may prevent more than a seasonal decrease in demand.

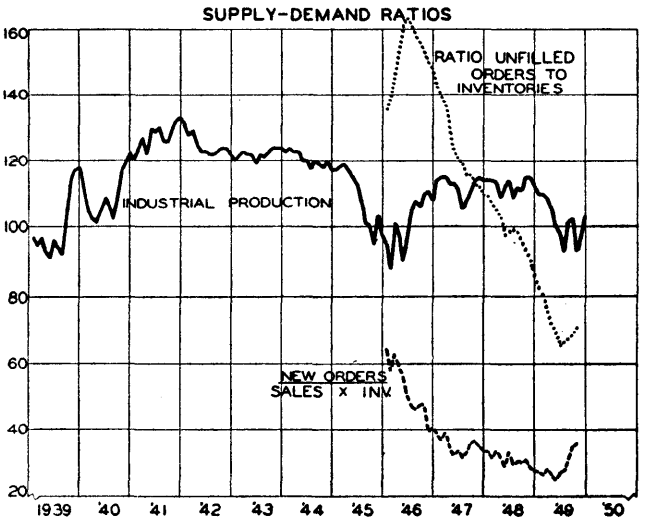
DEMAND

Demand-Supply Ratios

Revised records of manufacturers' new and unfilled orders released by the United States Department of Commerce have enabled us to recompute the demand-supply ratios previously published in these bulletins from time to time. (See the 1947 edition of *Where Are We Going?*) Unfortunately, revised monthly data have been compiled only for the period since 1946; consequently, our conclusions concerning the significance of the data are tentative. (Data for the period 1939-41 may be published later.)

The revised new-orders figures are the dollar value of net new orders received by the manufacturers, i.e., gross new orders, less cancellations. Included are most of the major industries, such as iron and steel, nonferrous metals, electrical machinery, other machinery, transportation equipment, and other durable-goods industries.

On the accompanying chart we have shown the ratio of unfilled orders to inventories (dotted line) and the ratio of new orders to sales times inventories (dashed line). The latter series is the one previously referred



to as demand-supply ratio I. The third series shown is our index of industrial production adjusted for long-term trend.

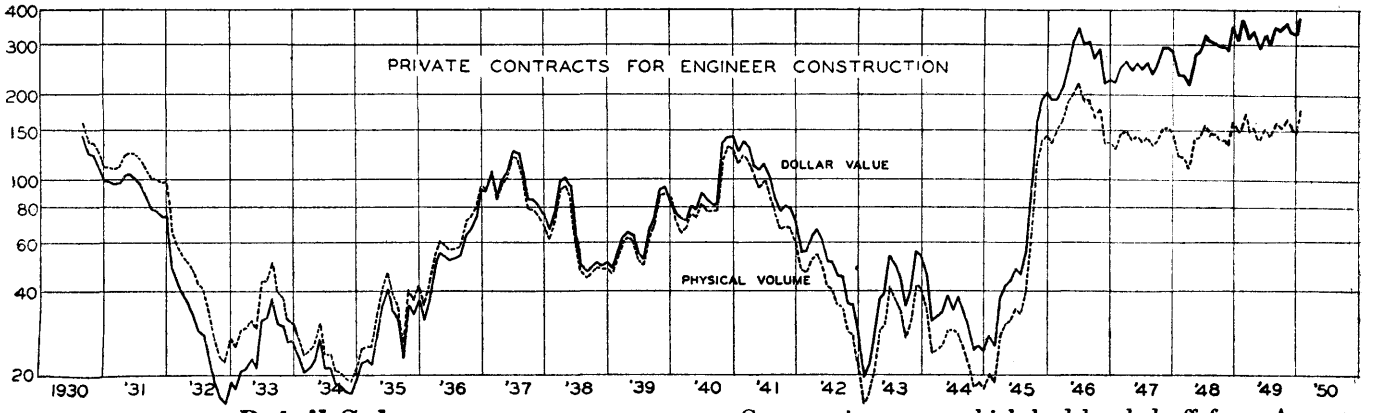
The ratio of unfilled orders to inventories reveals the significance of the inventory situation at the manufacturing level. A downward trend of this ratio indicates that, in relation to the backlog of orders, manufacturers' inventories are increasing. Because prewar data are not yet available we are unable to ascertain what levels of the ratio may be significant. However, the high levels reached by the ratio in 1946 no doubt reflected an abnormal demand situation. The sharp downturn (following a temporary leveling-off of the ratio) that began in August 1948 preceded the cyclical recession in industrial production by 4 months and apparently reflected the accumulation of burdensome inventories.

More significant was the reversal of the downward trend that occurred in the ratio of unfilled orders to inventories in July 1949. The upturn in the ratio occurred 1 month before the cyclical revival of industrial activity began. Furthermore, the fact that the ratio continued to rise during the succeeding 3 months is further confirmation that the cyclical revival in industry began in August.

In earlier studies we found that changes in the ratio of new orders to sales times inventories (demand-supply ratio I) usually preceded corresponding changes in the index of industrial production. The turning points of the ratio regularly led the turning points of industrial production by several months. Our preliminary study of the new series based on the recently revised data reveals that this characteristic is unchanged, although month-to-month fluctuations tend to obscure the important turning points. The downward trend of industrial activity that began in December 1948 was preceded by a downward trend of the ratio for several months. The upturn in the ratio that occurred in June 1949 preceded the cyclical revival of industrial activity that occurred 3 months later.

Changes in both the ratio of unfilled orders to inventories and the ratio of new orders to sales times inventories appear to forecast changes in industrial activity. When the compiling agency is able to publish the data more promptly, these series presumably will be more useful as indicators of cyclical changes.

[2] *Federal Reserve Bulletin*, November 1949, page 1318.



Retail Sales

Total sales in the Nation's leading mail-order and chain stores during January were 4 percent less than sales in the corresponding month last year. Apparel sales decreased most. January sales of automotive-variety chains, on the other hand, were 9 percent more than those of a year earlier. The data compiled by *The New York Times* are summarized below.

Percent Change in Retail Sales for January 1950 vs. January 1949

Mail order	− 2
Grocery	− 5
Variety	− 3
General Merchandise	− 2
Apparel	−14
Drugs	− 2
Shoes	− 9
Automotive-variety	+ 9
Men's Wear	−14

Note: The classes are given in the order of magnitude of dollar sales.

Department-Store Sales

Department-store sales for the week ended February 11, 1950, were 5 percent more than sales for the previous week but were unchanged from sales in the corresponding week last year.

PRICES

Commodities at Wholesale

(August 1939=100)	*1949 Feb. 16*	*1950 Feb. 9*	*1950 Feb. 16*
Spot-Market Prices (28 basic raw materials)	274	247	248
Commodity Futures Prices (Dow-Jones Daily Index)	269	282	282

BUSINESS

Private Contracts for Engineer Construction

The 3-month moving average of private contract awards for heavy engineering construction increased 15 percent during January to a new all-time high. The January average was nearly 18 percent above that of January 1949 and 1 percent above the previous all-time peak reached during the 3 months ended February 1949. Contract awards during January alone, which totaled $428,051,000, exceeded those for December by 12 percent and were nearly twice those for January 1949.

Construction costs, which had leveled off from August through November, rose slightly during December to an all-time high. Consequently, our 3-month moving average of the physical volume of engineering construction increased slightly less than the dollar volume. Nevertheless, the index rose to within 1 percent of the 1949 peak reached in February 1949.

We mentioned in last month's article the survey by the Department of Commerce and the Securities and Exchange Commission that indicated businessmen planned to spend nearly 14 percent less on plant and equipment during the first 3 months of 1950 than they did in the last quarter of 1949 or in the first 3 months of 1949. More recently the McGraw Hill Publishing Company's department of economics has published the results of a survey indicating that expenditures for new plants and equipment by American industry in 1950 will be 13 percent less than the amount expended during 1949.

However, the substantial increase in engineering construction during January suggests that these estimates may have been too pessimistic. We have already pointed out that these reports probably reflected business anticipations in October and November, a period when the business outlook was distorted by the steel and coal strikes and when further substantial decreases in construction costs may have been anticipated by businessmen. However, private contracts for engineering construction include contracts for the building of apartment housing and other large projects as well as industrial plant. Consequently, the January increase may have reflected increases in other than industrial construction. We do know that one major contract awarded during January was a $35,000,000 hospital and medical center for New York University.

There is no evidence as yet that a downturn has begun in heavy-construction activity. On the contrary, since May there has been a general upward trend in both the dollar and physical volume of private engineering construction. If coal mining is resumed before a substantial curtailment of industrial production occurs, heavy-engineering contract awards may remain at a high level for some time to come.

BOOK REVIEW

The Department Store Story by Frank M. Mayfield
Fairchild Publications, Inc., New York ($5)

For those persons engaged in the department-store business or in retail trade in general Mr. Mayfield's book should provide interesting reading. He has used numerous anecdotes to advantage in making his various points and has described many unusual and successful features of the Nation's leading department stores.