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Labor-Management Negotiations in the Automobile Industry

On August 31 present employment contracts between the United Auto Workers Union and the three major automobile manufacturers (General Motors, Ford, and Chrysler) will expire. Negotiations that began late in June have seemed to drag, but this was partly because groundwork for understanding the union's elaborate demands had to be laid and partly because management's representatives know from experience that it is not to their advantage to make their counter offer early in the bargaining period. That offer, made on August 17, included fairly substantial increases in pay and in insurance and pension benefits but it ignored a major union demand that involves certain changes in working conditions. Union officials have called the offer "inadequate." One of them was quoted as saying that he was "much more pessimistic" about avoiding a strike now than he was at this stage of the negotiations 3 years ago. The August 31 deadline could be passed, of course, without a strike, if there were mutual agreement to extend present contracts while bargaining continued.

Presumably, neither side wants a strike, but the labor leaders appear to be determined to achieve substantial gains, not only in wage rates but also in many other conditions of employment; and management's representatives appear to be determined to hold labor costs at what they consider to be a reasonable level in order to avoid increasing the prices of their companies' products. The companies' officials are keenly aware that this could be a record year for automobile sales if a strike does not delay output of the 1965 models. The union would prefer to avoid a strike for political reasons. A strike running into November could be of considerable embarrassment to the presidential candidate whom the union supports. Moreover, both union and management probably would prefer to avoid the intervention of Government that would be probable in the event of a long strike.

What the outcome of the negotiations will be is a matter of concern not only to the labor and business organizations involved but also to the American public, which directly or indirectly will be affected by unfavorable economic developments resulting from either a strike or an agreement that is not based on sound principles and economic realities.

Because of the present focus of attention on collective bargaining in the automobile industry, we discuss in the article that follows some fundamental aspects of labor-management relations.

Sound Collective Bargaining*

The great difficulty in the bargaining that takes place between an industry wide union and a group of major producers as they endeavor to establish the "prices" for labor of many different kinds is that the market influences of supply and demand are largely superseded by the decisions of a comparatively few collective bargainers. Ideally, the bargainers' purpose should be to determine the actual value, no more and no less, of each worker's contribution to the total product of the industry and set his pay accordingly, but in any exact way this is humanly impossible. Therefore, reasonableness and a high sense of responsibility on the part of all who sit at the bargaining table are qualities greatly to be desired. These too often are lacking or are thwarted by the partisan nature of the bargaining. The usual approach in labor-management negotiations ignores the common interest and joint relationship of the two parties.

The common interest of labor and management is to (1) maximize the output of their industry and (2) find an equitable basis for the division of the part of total output that is available for rewarding labor, management, and ownership. Although finding a basis for the equitable division of the available product should be the primary concern of labor-management negotiations, it is not so recognized in general practice. Instead of labor-management conferences being conducted in an atmosphere conducive to a solution of this problem, they are usually carried on in an atmosphere of contest and rivalry that frequently degenerates into one of militant opposition. Under such circumstances management tries to give as little as possible and labor tries to get as much as possible. Both act as though their respective interests were each independent of the other. Both are then blinded to the mutuality of their interests and the real nature of the problem before them. Those who represent labor assume that their demands can be met at the expense of others and without ultimate cost to the workers. They do not concern themselves with how higher costs to the industry will be met or with the possible adverse effects that meeting them may have on labor itself.

Wage gains at the expense of management's and ownership's fair share of an industry's product reduce the means for attracting and keeping the most capable management and attracting adequate capital. As such a situation develops, capital flows into more profitable industries, and the industry subject to unduly high wages tends to deteriorate with a resulting diminution in its demand for workers. The coal industry is a notable example of how uneconomic wage increases caused the loss of markets and reduced employment opportunities by weakening its competitive position in relation to other fuels, notably oil and gas. Moreover, the weakened competitive position of domestic industries in foreign mar-

*This article is drawn in part from an article on labor-management negotiations that appeared in *Research Reports*, June 15, 1959.

kets can affect adversely the balance of trade and cause a drain on the Nation's gold reserve.

When labor disregards its joint interest in the output of industry and follows policies detrimental to optimum production, both labor and capital are adversely affected. Because over the longer run workers can obtain their wages only from the output of the industry in which they work, any restriction of production tends to reduce the flow of funds available for wages. Conditions retarding worker productivity range from "featherbedding" to the encouragement of individual worker's attitudes of indifference to the quantity or quality of the work done.

Recognition of the joint nature of labor's interest in the output of industry can also be helpful to an industry whose competitive position has weakened. Failure of labor to adjust its wage demands downward to meet competition denies the industry necessary cost flexibility. An inevitable consequence to workers of such rigidities is diminished job opportunities. The textile industry is an example of an industry that has been confronted with this type of problem but in which some cost flexibility has been gained in recent years through wage readjustments.

Perhaps the greatest gains to labor and management and to the entire economy would come through intelligent cooperation in the development of formulas for sharing the product of industry under different economic conditions. Wastes resulting from labor-management haggling, strikes, and unjustified wage increases are not limited to those occurring in periods of prosperity and rising prices. Perhaps the greatest losses to labor and management and to the whole economy occur in those sectors of the economy where, during periods of decreasing business activity or during periods when prices generally are decreasing although business activity is sustained, wage rigidities, through the price inflexibilities they tend to cause, prevent the maximum use of labor and other resources. During recessions, industries for whose products demand is elastic experience the greatest contraction of sales, output, and employment as a result of price inflexibility traceable largely to inflexible wages.

The problem is not one of preventing declining prices but of finding equitable bases for sharing a sustained rate of production during periods of adjustment. (One of the periods of the Nation's greatest economic growth and development was between 1875 and 1893 when prices generally were falling.) Development of sound formulas for the determination of labor's and owner-management's shares in the output of industry could contribute greatly to the broadening of markets and thereby foster economic stability and growth and a high level of employment whether prices were rising or falling.

What the Indicators Say

Among the leading indicators, new orders for durable goods increased sharply and the average workweek remained unchanged at the high level of 40.7 hours, but the number of houses started continued to decrease in July.

Among the roughly coincident indicators, employment in nonagricultural establishments, industrial production, bank debits outside New York City, and personal income all increased during July.

The indicators continue to reflect and forecast increasing business activity.

SUPPLY

Industrial Production

Production of steel, automobiles, electric power, and lumber (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

Steel	*1929*	*1932*	*1957*	*1961*	*1963*	*1964*
Ingots—million tons						
1 week: August 15	1.28	0.23	2.06	1.90	1.74	2.38
4 weeks: August 15	5.23	0.97	8.17	7.43	7.13	9.72
Automobiles						
Vehicles—thousands*						
1 week: August 15	116	27	146	28	30	33*p*
4 weeks: August 15	463	138	575	303	395	280*p*
Electric Power						
Kilowatt-hours—billions						
1 week: August 15	1.7	1.4	12.4	16.1	18.0	19.1
4 weeks: August 15	6.9	5.7	49.2	64.2	74.1	79.6
Lumber						
New York Times Index						
1 week: August 8	131	36	101	93	86	106
4 weeks: August 8	131	37	100	92	81	100

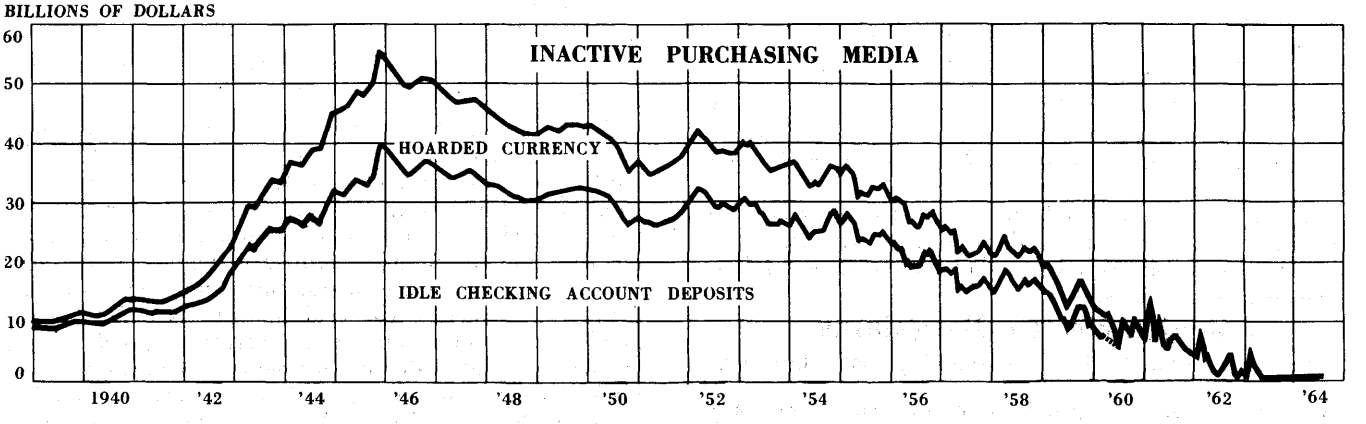
* Cars and trucks in the United States and Canada.
p Preliminary.

DEMAND

Inactive Purchasing Media

Inactive purchasing media comprise hoarded paper currency and coin as well as idle checking account deposits. Purchasing media that are held inactive are not used in effecting business transactions; when they are so held, effective demand for things in the markets is less than it would be if all purchasing media were in active use. An associated aspect of inactive purchasing media is their potential availability for increasing demand for things in the markets, if those who hold such purchasing media choose to use them.

During World War II the Federal Government resorted to the common but ill-advised expedient of monetizing a vast amount of debt in order to obtain funds



for prosecuting the war. Recipients of those funds included individuals and business firms engaged in processing war materiel. During hostilities, individuals found that new cars, houses, and other things that they wanted were not available, and businessmen could not obtain desired new plant and equipment. Moreover, the artificially low interest rates obtainable on savings deposits, Government securities, and other fixed-interest-bearing investments (resulting from the low-interest-rate policy of the Treasury and the Federal Reserve Board) made yields obtainable from investing funds too low to be worth the trouble to many people of doing so. As a result, much of the purchasing media derived from monetizing Government debt was held inactive in checking account deposits. In addition, a large amount of purchasing media was held inactive in foreign-owned checking account deposits in American banks, and a large quantity of U.S. currency was hoarded at home and especially abroad.

As the accompanying chart shows, the amount of purchasing media held inactive at the end of World War II totaled about $55 billion. As consumer and capital goods again became available in increasing quantities after the war, currency was dishoarded and idle checking account deposits were reactivated at an average annual rate of $4 billion until the outbreak of the Korean War. With the advent of that war, this rate increased sharply as individuals and businesses rushed to buy goods that they thought might again become scarce. Later, for reasons similar to those applicable during World War II but on a smaller scale, the amount of purchasing media held inactive again increased, by almost 20 percent from late 1950 to early 1952. Following the Korean armistice in 1953, reactivation of inactive purchasing media was resumed at about the rate of the late 1940's.

When the amount of hoarded currency was large it could be estimated with reasonable accuracy on the basis of changes in transactions settled by currency and in the total amount of currency outstanding. In recent years, however, this basis has become unsatisfactory for estimating the relatively small amout of currency hoarded. Consequently, we have discontinued attempts to make such an estimate until an appropriate method for doing so can be found. U.S. currency that remained hoarded abroad early in 1960 probably was exchanged rapidly during that year for foreign currencies at central banks, which in turn exchanged the U.S. currency for gold at the Treasury as the future value of the dollar became increasingly uncertain. Although some currency undoubtedly remains hoarded in this country, the total amount probably is small in relation to total purchasing media.

Recent research on changes in the rate of turnover of checking account deposits indicates that reactivation of those deposits that had been held idle was completed by mid-1963. Since then inactive purchasing media has consisted principally of hoarded silver coins. Such hoarding began in 1961 and had increased to an estimated $0.8 billion at the end of July. Although the hoarding of silver coins has resulted in a shortage of coins for conducting retail business transactions, the amount held inactive is only a small portion of total purchasing media.

Almost all of the $55 billion of purchasing media that was held idle at the end of World War II now has been returned to active use. Consequently, the stimulus provided by the reactivation of such purchasing media, which ameliorated postwar recessions of business activity, will be lacking in the future.

Department-Store Sales

The seasonally adjusted monthly index of sales of department stores reporting to the Bureau of the Census is estimated at 194 for July (1947-49=100), compared with 186 for June and with 177 for July 1963. Unadjusted weekly sales totaled $319 million in the week ended August 8, or 12 percent more than those in the corresponding week last year; sales during the 4 weeks ended August 8 totaled $1,236 million, or 11 percent more than those in the corresponding period last year. Gains in sales thus continued to exceed the long-term annual growth rate of 4 percent by a considerable margin.

Prices of department-store goods remained unchanged from May to June but averaged one-half of 1 percent more than prices in June 1963. July department-store prices are estimated to have averaged about three-fifths of 1 percent more than those in July last year. Thus, to the extent that prices of department-store goods may be considered representative of consumer goods prices, the retail price level has been relatively stable during the past year.

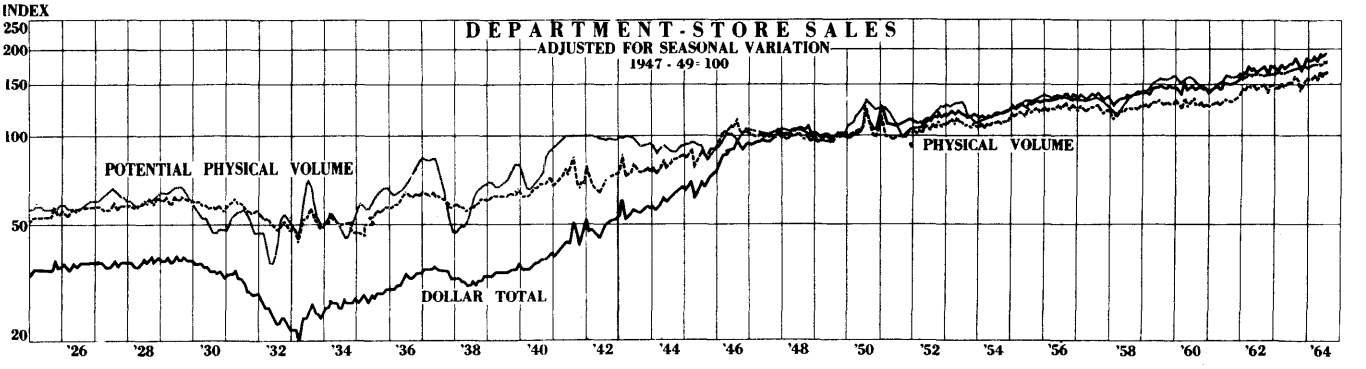
The potential quantity of department-store sales, as measured by the production of goods commonly sold in such stores, increased 1.2 percent from June to July and was 7 percent more than the potential quantity in July 1963.

Completion of ordering of apparel lines for delivery to the stores in July, August, and September indicates expectations of year-to-year sales increases in apparel lines ranging from 5 to 20 percent and averaging about 10 percent. Substantial and currently increasing sales of home furnishings, the other large category of department-store sales, also provides a basis for optimism about autumn sales volume. Inasmuch as these lines comprise about five-sixths of all department-store sales, continued overall sales gains in excess of the long-term trend are expected through the autumn.

Further increases in department-store dollar sales in the next few months appear to be probable.

Latest Weekly Data

Sales of department stores reporting to the Bureau



of the Census compare with those of corresponding periods a year earlier as follows:

Period	*Percent Change*
Week ended August 15	+ 9
Four weeks ended August 15	+10

PRICES

Commodity Prices

	1963	*1964*	
	Aug. 17	*Aug. 10*	*Aug. 17*
Spot-market, 22 commodities	246	261	259
Commodity futures	295	287	288
Steel-scrap	$27.17	$38.67	$38.50

Note: The indexes are, respectivily, those of the U. S. Bureau of Labor Statistics, Dow-Jones, and *Iron Age*. The spot-market and futures indexes are converted so that their August 1939 daily averages equal 100. The steel-scrap index is a composite price for No. 1 heavy melting scrap.

BUSINESS

Employment and Unemployment

Employment conditions, as indicated by the average weekly hours worked by production workers in manufacturing, the number of workers employed in nonagricultural establishments, and the total number of unemployed, continued to improve during June and July.†

The average workweek in manufacturing increased sharply in February to 40.6 hours from its January low of 40.1 hours, and increased again to 40.7 hours in March. This high level has been sustained continuously through July. The recent level of this leading indicator of business cycle changes has been equaled several times for 1-month periods but was exceeded in the past 9 years only during the autumn of 1955. The average overtime component of the series attained a peak of 3.2 hours in June and decreased only slightly in July.

Payroll employment in nonagricultural establishments also has increased steadily since November 1963 by an average of more than 150,000 new jobs monthly to an alltime record total of 58,750,000 in mid-July. During the past 12 months nonagricultural employment increased by about 1.5 million, with gains almost equally distributed among the 4 categories of wholesale and retail trade, services, State and local government, and the manufacturing and construction industries. Slight year-to-year decreases occurred in mining and Federal Government employment.

The number of unemployed,‡ as estimated from households surveys by the Bureau of the Census, decreased from 4,692,000 in June to 3,813,000 at mid-July. This represented only 4.9 percent of the civilian labor force for July, the lowest rate in 4½ years. (However, in contrast with no reduction in the labor force last year from June to July, a reduction of 427,000 was estimated by the Bureau of Labor statistics this year. This reduction exceeded substantially any reported in the last several years and has not been explained to our satisfaction.) The unemployment rates for major categories of workers all decreased during July as follows: adult men from 4.0 to 3.7; adult women from 5.1 to 4.9; and teenagers from 15.0 to 13.1. The number of long-term (15-26 weeks) unemployed decreased from 485,000 to 322,000, but that of the very-long-term (over 26 weeks) unemployed increased slightly from 522,000 to 535,000. These estimates indicate a perceptible overall improvement in the general unemployment situation, but they also reveal that difficulties continue to be experienced by persons in these categories, most of whom are handicapped by deficiencies in experience, training, and education.

Increasing nonagricultural employment, decreasing unemployment, and a continuing high-level average workweek indicate that employment conditions were favorable in July. As a leading indicator of business-cycle changes, the average workweek also suggests near-future continuation of the recent rate of business activity.

BOOK REVIEW

Statistical Yearbook, 1963, Department of Economic and Social Affairs, United Nations

United Nations Sales Section, Room 1074, New York 17, New York ($11.50 cloth, $9.00 paper)

This fifteenth issue of the *Statistical Yearbook* contains a wide range of statistics for more than 160 countries and territories. The tables are supplemented by general and explanatory notes.

†Employment in nonagricultural establishments and the unemployment rate (both seasonally adjusted and the latter inverted) are two of the roughly coincident indicators of cyclical changes in business activity. Data on employment in nonagricultural establishments are based on a payroll survey of a large sample of employers. Such employment excludes agricultural workers, proprietors, the self-employed, domestic servants, unpaid family workers, and members of the armed forces.

‡The unemployed total comprises all jobless persons who were looking for work, including students on vacation and persons such as housewives who want part-time work during particular hours. Also counted as unemployed are persons waiting to be called back to jobs from which they had been laid off, those scheduled to start new wages or salary jobs within 30 days (except students), and those who would have been looking for work except that they were temporarily ill or believed that no work was available in their line of work or in their community.