

STUDY PAPERS NOS. 10 AND 11  
POTENTIAL PUBLIC POLICIES TO DEAL WITH  
INFLATION CAUSED BY MARKET POWER

BY

EMMETTE S. REDFORD

A BRIEF INTERPRETIVE SURVEY OF  
WAGE-PRICE PROBLEMS IN EUROPE

BY

MARK W. LEISERSON

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MATERIALS PREPARED IN CONNECTION WITH THE  
STUDY OF EMPLOYMENT, GROWTH, AND  
PRICE LEVELS

FOR CONSIDERATION BY THE  
JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES



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STUDY OF EMPLOYMENT, GROWTH, AND PRICE LEVELS

(Pursuant to S. Con. Res. 13, 86th Cong., 1st sess.)

OTTO ECKSTEIN, *Technical Director*  
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**These are part of a series of papers being prepared for consideration by the Joint Economic Committee in connection with their "Study of Employment, Growth, and Price Levels." The committee and the committee staff neither approve nor disapprove of the findings of the individual authors. The findings are being presented in this form to obtain the widest possible comment before the committee prepares its report.**



## LETTERS OF TRANSMITTAL

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DECEMBER 11, 1959.

*To Members of the Joint Economic Committee:*

Submitted herewith for the consideration of the members of the Joint Economic Committee and others are study papers 10 and 11, "Potential Public Policies To Deal With Inflation Caused by Market Power"; and "A Brief Interpretive Survey of Wage-Price Problems in Europe."

These are among the number of subjects which the Joint Economic Committee has requested individual scholars to examine and report on to provide factual and analytic materials for consideration in the preparation of the staff and committee reports for the "Study of Employment, Growth, and Price Levels."

The papers are being printed and distributed not only for the use of the committee members but also to obtain the review and comment of other experts during the committee's consideration of the materials. The findings are entirely those of the authors, and the committee and the committee staff indicate neither approval nor disapproval by this publication.

PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee.*

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DECEMBER 9, 1959.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: Transmitted herewith are two of the series of papers being prepared for the "Study of Employment, Growth, and Price Levels" by outside consultants and members of the staff. The authors of these papers are Emmette S. Redford, University of Texas, Austin, Tex., and Mark W. Leiserson, Yale University, New Haven, Conn.

All papers are presented as prepared by the authors, for consideration and comment by the committee and staff.

OTTO ECKSTEIN,  
*Technical Director,  
Study of Employment, Growth, and Price Levels.*



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S. REDFORD

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STUDY PAPER NO. 10  
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(BY EMMETTE S. REDFORD)

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## STUDY PAPER NO. 10

# POTENTIAL PUBLIC POLICIES TO DEAL WITH INFLATION CAUSED BY MARKET POWER

(By Emmette S. Redford<sup>1</sup>)

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### INTRODUCTION

This paper deals with the inflationary threat inherent in wage setting and pricing practices in large organizations of labor and capital. It states the problem of cost-push inflation, discusses generally and briefly the applicability and adequacy of various approaches in public policy to the problem, and points up in more detail the specific administrative problems involved in direct Government limitation or surveillance of wage and price increases by organizations with considerable market power.

The paper is intended to serve only as an introduction to the problem. The issues outlined are so broad and complex that it may be expected that they will be the subject of study by many task forces dealing with the problem of inflation in the future.

### I. INFLATIONARY CONCENTRATIONS OF MARKET POWER

It can be assumed that there is a public interest in avoidance of inflation, and that inflation is manifested in the price level. There is also evidence now that inflation may be caused in two ways. One is through an increase in demand so as to put pressure upon the supply of goods, which is commonly referred to as demand or demand-pull inflation. The other is through an independent increase in wages or prices and is called sellers' or cost-push inflation.

Demand inflation has so long been the concern of economists that it forms the classic model of inflation. Sellers' inflation has only recently received substantial attention, in part because it is recognized to be an inherent possibility of the existence of organization power, but in the main because of studies tending to show that it was an important element in the most recent inflationary movement (since 1955) in the United States.

Key economic decisions on wages and prices are now made for vital areas of the economy by organizations of great size and power. Wages are fixed by agreement between organizations; such wages are now often referred to as administered wages. Prices may be fixed by organizations in accord with objectives desired to be attained and such

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<sup>1</sup> The author is grateful for the able assistance given by Mr. Michael Brower of the staff of the Joint Economic Committee in the preparation of this paper, and to Prof. George W. Stocking, of Vanderbilt University, and Dean Page Keeton, of the University of Texas, for reading and criticizing a draft of the paper.

prices determine or influence the pricing levels for an industry or product; such prices are sometimes called administered prices. Whenever one or more organizations acting singly, concurrently, or jointly have the ability through the administration of wages or prices to exact more income for the amount and quality of labor, capital, commodity or service supplied than could be obtained in the absence of such organizational action they may be said to have market power.

The effective exercise of market power may contribute to inflation in several ways. The first is through the downstream movement (the passing on) of the particular item of cost which is controlled. For example, market power over producers' prices of automobiles or steel will be reflected in succeeding stages of distribution and ultimately in consumers' costs. Because successive sellers often increase their dollars-and-cents markups more than the increase in their purchase costs the amount of the price increase will swell as the commodity moves through successive stages of production and distribution. This pyramiding of prices through the pricing practices of successive groups of sellers enlarges the inflationary effect of original cost increases in producer industries. Second, market power may contribute to inflation if exercised under such conditions as to create a pattern to be followed in other industries, thus creating lateral downstream movements of pyramiding prices which further enlarge the effect of the original exercise of market power. This kind of enlargement of the effects of cost increases is now familiar as a result of the pattern-setting wage negotiation and the pattern-setting price movement of firms in a leadership position. Third, exercises of market power may give rise to repetitive cycles of wage-price or price-wage increases. These cycles, after the manner of the chicken and the egg cycle, may lead to an inflationary spiral which feeds upon itself. Thus three types of chain reaction may be created by the exercise of market power: the direct, pyramiding, downstream; the pattern-setting, pyramiding, lateral; and the wage-price or price-wage cycle.

There is, therefore, latent inflation in the existence of market power. When concentrations of power are sufficient to create market power these concentrations become inflationary concentrations of power; that is, they are capable of producing inflationary effects. This capability creates the threat of sellers' inflation. Whether such inflation actually develops will be dependent upon the exercise of market power in situations which create one or more of the types of chain reaction described above and upon the nonexistence of measures to counteract these effects.

Organization decisions leading to price increases may be made concurrently with other developments in a general movement of prices upward. To the extent that such decisions stimulated or accentuated the inflationary trend there would be sellers' inflation within a general inflation. But organizations might force particular wages or prices upward even when there was no general upward trend in prices. In such a case there is a sellers' inflation but it is industry or commodity inflation in the absence of general inflation. It is a form of sectoral inflation and could exist concurrently with unemployment of men and resources. Such inflation, produced by market power, appears to be

a severe exercise of organization power because it may result in greater distortion of the allocation of resources and the distribution of income through market power than would result in a period of general price advance. Finally, organizations may fail to adjust prices downward in deflation, or in response to selective weakening of demand or reductions in cost in a nondeflationary period. Such failure to adjust prices downward might be defined only as price rigidity, but it is also a form of price inflation, being either an inflationary factor in a deflationary period or sectoral inflation created by nonresponsiveness to new factors.

Any concentration of power capable of producing one of the three effects described in the preceding paragraph may be capable of producing the other two. Yet public policy may be concerned immediately only with price increases, either because this appears to be the present danger or because it appears to be the usual danger. Since this is true, and since the means for dealing with price increases may be simpler than those for dealing with both price increases and price rigidity, primary attention is given in this discussion to the means of dealing with price increases, and with wage increases which may result in price increases.

## II. BASIC APPROACHES IN POLICY

### INTRODUCTORY COMMENTS

The existence of market power is now widely recognized as a cause for deep concern. The business community is concerned over the existence of this power in labor organizations. Thus, a statement prepared for the Chamber of Commerce of the United States says "that cost-induced inflation is becoming a very real possibility, if not an alarming probability," and finds the cause in the "monopoly power of organized labor."<sup>2</sup> Labor organizations are concerned over the existence of the power in industrial organizations. The AFL-CIO Executive Council has declared:

The ability of the executives of the dominant corporations in strategic industries, such as steel, auto, and oil refining, to raise prices, regardless of economic conditions in recent years, represents a major problem that must be solved if the Nation is to achieve relative price stability.<sup>3</sup>

Others in a more independent position than either of these contending forces are concerned over the phenomena accounting for both statements, namely, the concentration of power in organizations.

Americans have always been concerned over concentrations of power. Once it was a concern over the concentration of political power. In the Constitution-framing period of our Nation, Americans learned how to limit power in two ways: by checking power with power through separation of powers, checks and balances, and federalism; and by direct limitations on the use of power through bills of rights and judicial review. In the following century Americans were alarmed over growing concentrations of private economic power.

<sup>2</sup> *Administered Prices and Inflation: Some Public Policy Issues*, Apr. 23, 1959. Submitted to the Subcommittee on Antitrust and Monopoly, Committee on the Judiciary, U.S. Senate.

<sup>3</sup> Statement issued at San Juan, P.R., Feb. 24, 1959.

Again they learned how to use two methods for limiting power: by restraint on its growth and exercise through antitrust laws, and by direct limitation on rates of charge through regulatory agencies.

The problem of concentrated private power has now been presented in new ways. Unfortunately, there appears to be no simple way of dealing with it in its present forms. The policy issues are extremely complicated and baffling, and it is probable that the responsible Government official will find only partial answers and that even these will be found in several complementary approaches. It will be helpful to refer briefly to the several lines of approach which are proposed as answers to the problem of inflation or of concentrated power to see how far they may provide an answer to inflationary concentrations of private power. There are, in general, five lines of approach suggested for public policy.

#### CORRECTIVE FORCES WITHIN THE ECONOMY

One line of approach suggested is that Government depend upon the corrective forces operating with the economy. Three types of argument are currently advanced in favor of this approach.

One argument is that society will be best protected by the conscience and restraint of those who possess market power. The argument has been set forth by A. A. Berle as the means of meeting the general problem of corporate power.<sup>4</sup> In his exposition the argument is not for a completely let-alone policy by Government, for it is assumed that the conscience of man can be buttressed by legal standards of trusteeship developed in courts or in legislatures.

It is likely that courts and legislatures will indeed develop additional standards of trusteeship for organizations of capital and of labor; at the same time, it may be doubted whether legal standards of trusteeship, whatever they may accomplish in meeting other problems of private power, can define standards of restraint on wage requests and price changes which can be made effective primarily through the conscience of men. A recent study of "Pricing in Big Business" reports that corporate officials appear to be sensitive to public reaction to their policies and to feel a sense of public responsibility, and that many of the large corporations tried to hold the price line following the end of World War II;<sup>5</sup> assertions of similar attitudes among labor leaders have also been made; but it may nevertheless be too much to expect that management and labor will be able consistently to view specific questions of wages and prices in terms of public interests rather than of the interests of the groups which they are under compulsion to represent.

Another argument is that of countervailing power, which is that private concentrations of power beget opposed concentrations.<sup>6</sup> The argument is supported by the fact that concentrations of labor have arisen to meet concentrations of capital and that concentrations of buyers or sellers have often arisen to meet concentrations of the other. The conclusion is drawn that the public is protected by a new check and balance system, that between organizations; to the extent that the

<sup>4</sup> A. A. Berle, Jr., "The 20th Century Capitalist Revolution" (New York, 1954).

<sup>5</sup> A. D. H. Kaplan, Joel B. Dirlam, and Robert F. Lanzilotti, "Pricing in Big Business: A Case Approach" (Washington, D.C., 1958).

<sup>6</sup> John Kenneth Galbraith, "American Capitalism: The Concept of Countervailing Power" (New York, rev. ed., 1956).

new system works the public need not be concerned with the failure of the old checks and balances assumed to operate in the competitive market. The wise course for Government to follow, it is suggested, is to support movements for rise of countervailing power, as it did for labor through the National Labor Relations Act, or to aid those areas of the economy where countervailing power has not arisen, as it has done for agriculture.

Although countervailing power may be protection for the public, both critics and proponents of the idea have noted that it may not always exist or may not be operative. Large organizations of buyers and sellers may collaborate with each other and pass the cost to the consumer or freeze out competitors; many organizations are either not faced with opposing organizations of power or are faced with opposing organizations with too little strength to resist; in some industries vertical integration has extended the power of organizations all the way from the producer to the consumer. Yet the chief limitation on the protection of countervailing power is that noted by the original proponent of the idea. It is that in times when demand is high and relatively inflexible, buyers find little cause to resist the cost-push pressure of sellers. It becomes easier to accept the increased cost and pass it along. Even the will of the managers of industry to resist the demands of labor is weakened. Labor-management agreements become inflationary because there is no countervailing power in consumers. In other words, cost-push of labor, the market power of industry, and the demand pull of buyers all contribute to upward movement of prices. It may be added that even the first two of these may sometimes, without demand sufficient to induce full use of capacity, lead to sectoral inflation. It is not likely, therefore, that policymakers will accept countervailing power as sufficient in itself to protect the public interest.

Still another argument is that of freedom of enterprise. This argument is often presented as a denial of the existence of effective market power. In this form, it is an argument that organizations cannot on a sustained basis exact an excess above what a free market will allow. Critics would answer that this is not true, or that even if it were true the power to exert temporary control or influence could set in motion a chain of inflationary forces. The argument for freedom of enterprise is also presented as a claim that, whatever may be the adverse effects of private market power, these cannot be as bad as the effects of public power exerted through legislatures and administrators. Presented in this way the issue appears to be between those who trust private power and those who trust public power. Many, however, will be interested in searching for ways by which public power may be exerted to avoid excessive uses of private power without leading into the main dangers in use of public power. This desire will lead to consideration of other approaches in policy.

#### DEMAND CONTROLS

A second line of approach is through controls over demand, chiefly through monetary and fiscal measures.

The reason for support for this policy is that management of monetary and fiscal measures may dampen demand pressures and thus prevent sellers from obtaining price increases. But such measures are most effective for the highly competitive sectors of the economy and

may "touch lightly, or even exempt," the markets where firms are large and prices are administered.<sup>7</sup> To be effective in markets where there is concentrated market power, monetary and fiscal controls would probably have to be so drastic that they would create recession in the economy generally.<sup>8</sup> It would be economically undesirable and politically infeasible to use monetary and fiscal controls on so drastic a scale.

There is increasing recognition, as stated at the first of this paper, that there are two broad elements in the problem of inflation. The demand-pull element may be met by general demand controls (monetary and fiscal measures) supplemented perhaps with selective demand controls (e.g., restrictions on installment buying or on inventory buildup). The cost-push element may require other types of controls especially adapted to the prevention or control of bridgehead situations which would have a major inflationary effect.

#### ANTITRUST

A third approach is maintenance or restoration of competition through antitrust.

A fuller realization of the potentials of antitrust could be one means of preventing inflation through exercise of market power. Alertness in detection and vigor in enforcement may narrow the range of collusive and coercive practices. Effectiveness in enforcement could be increased by granting the Department of Justice power to obtain information through civil investigation demands. Further barriers to concentration of power could be erected through legislation extending the antimerger provision of the Clayton Act to banks and by preventing mergers until these could be studied by a governmental agency. Adoption of some rather arbitrary legislative tests on legality of business conduct might simplify standards of enforcement and expand the role of antitrust. Selected industries of high concentration and chain-producing effects could be studied to see whether enlargement of competitive forces, either under existing or new laws, would be possible. Actions of a rather drastic type on the antitrust front could presumably prevent the development of situations which would lead to consideration later of much more drastic remedies, including price controls of some sort.

Nevertheless, the limitations of antitrust are of common knowledge. Periods of weak enforcement or of weakening judicial construction, limited funds for enforcement and prolonged litigation, loopholes such as those which have characterized section 7 of the Clayton Act, difficulties of unraveling tangled skeins of corporate relationship or of breaking apart a merged enterprise, judicial requirement of complete market analysis in place of acceptance of per se doctrines—these and other difficulties are known. More significant perhaps, the nature of the industrial problem has changed. Prevention of collusion and coercion, and of monopoly, does not mean that managerial leadership in high concentration situations cannot set the pattern of price and production in an industry. New adventures in antitrust along bold

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<sup>7</sup> See testimony of J. K. Galbraith, "Hearings Before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U.S. Senate," July 11, 1957, pp. 32-71.

<sup>8</sup> See besides Galbraith, Gerhard Com, mimeographed paper: "Answers to Questions of Senate Committee on Finance," Apr. 15, 1958, and his testimony before a subcommittee of the Committee on Government Operations of the House, Amending the Employment Act of 1946, on July 22, 1958, and Apr. 9, 1959.

new lines might be required if the problem of market power was to be fully dealt with through this method.

Even more baffling are the issues presented by the proposals to solve the wage-push problem by expansion of antitrust prohibitions with respect to labor organizations. These proposals take two forms. One is to prevent the exercise of labor power to control product markets, as for example through maintenance of prices or prevention of entry of new employers. There is much argument for clarification and expansion of legal restriction on such exercises of labor power, but the practical problems in definition of types of action to be covered are difficult and this form of public action would in all probability not materially affect the potentialities for wage-push inflation. The second form of the proposals is for limitation on the market power of unions in negotiating wages and other labor benefits. Insofar as such proposals relate to labor practices, such as secondary boycotts and "hot cargo" clauses, the established approach in Government legislation is to seek to deal with these under the basic labor regulatory statute (Labor Management Relations Act) rather than the basic business regulatory statutes (antitrust laws); Congress has already given considerable attention to problems of this kind. The plain fact is, however, that legislation on labor practices may have little effect upon the bargaining power of most big unions. Moreover, insofar as such proposals encompass limitation of industrywide or multiple-unit bargaining there are many problems. Some think marketwide bargaining is desirable. Some think it is preferable to whipsaw tactics through which a union threatens each employer in turn with a strike; a ban on multiple-unit bargaining would probably not be effective without a limitation on multiple-unit union organization. So drastic a step is not likely, for it runs counter to traditional public policy with respect to unionization and would meet powerful political opposition. There may, it may be concluded, be need for study of the applicability of the antitrust approach to new types of market power, but it is not likely that the problem of wage-push inflation will be met adequately by this approach.

#### WITHDRAWAL OF GOVERNMENT SUPPORT FOR MARKET POWER

Another approach would be to retreat from governmental measures which have the effect of supporting or protecting private market power. This could include retreat from a considerable number of Government price-prop and price-protective measures.

Not all Government price-prop actions have the effect of strengthening market power. Thus, a minimum wage, or an increase thereof, though it may have an inflationary effect, may also compensate the weak for the disadvantage they suffer from the exercise of market power by the strong. To abandon the maintenance of minimum wages, or to fail to adjust them in line with increases in the cost of living or increases in production, would accentuate the imbalances created by the existence of market power. Similarly, price supports for agriculture may be inflationary, but they are not usually supports for private market power, for agriculture is an area of the economy where market power in the hands of producers has usually failed to materialize.

There are, however, many Government policies which tend to establish a protective shield around market power. Among those which may have this effect are the following:

- (a) Protective tariffs and quotas.
- (b) Resale price maintenance laws.
- (c) Production controls for oil.
- (d) Patent grants.
- (e) Government—especially defense—purchasing and disposal policies.
- (f) Safeguards for rights of unionization and collective bargaining.
- (g) Protections against competition and rate reductions in regulated industries.

The listing of these measures underscores certain basic realities with respect to public policy affecting price levels. First, public policy encompasses many objectives which may conflict with that of preventing inflation, including such objectives as national security, conservation of resources, and support of the purchasing power of various groups. The public official will take account of varied economic and noneconomic objectives and make choices among policy objectives which are in conflict with each other. Second, delicate questions of balance between objectives may arise. Thus, some would argue that the most effective way to deal with the problem of market power would be to amend the basic labor-management relations statute so as to diminish the strength of organizations of labor; others would argue that this would unduly increase the market power of opposed concentrations and would endanger the maintenance of purchasing power necessary to maintain economic growth. As in the case of monetary and credit controls, alterations of the basic labor law which were drastic enough to prevent any inflationary exercises of market power might be so drastic as to weaken supports for sustained and increasing demand. Third, the political force of groups demanding price-prop or protective measures is often very great, and this political force may now often be supported by claims, as in the case of protective duties, that the national interest is involved.

It may be that developing consciousness of the potential impact of private market power on the economy will lead to more caution in creation of protective shields for private groups. On the other hand, it is apparent that the motivations which have led to the various public policies will not disappear and hence that there will be no general retreat from these policies. It may be expected that a government that is responsive through representative institutions will yield to many group demands which have the effect of sustaining or increasing price levels.

#### PUBLIC CONSIDERATION OF WAGE AND PRICE INCREASES

The inadequacies of internal corrective forces, the ineffectiveness of demand-limiting controls of monetary and fiscal types as restraints upon sellers' inflation, the imperfections of antitrust law and ineffectiveness of antitrust enforcement, and the unlikelihood of general retreat from price-prop and price-protective policies probably account for the recent suggestions for public consideration of wage and price

increases.<sup>9</sup> The proposals for public consideration all look to some type of executive or administrative consideration of specific price and/or wage increases.

In the discussions of sellers' inflation there has been widespread agreement that public determination of prices and wages for industry generally should and would not be considered, except for unusual emergencies threatening a general and large inflationary movement. There seems to be rather general agreement at this time that creeping inflation is preferable to general price and wage control by public authority. Yet there has been search for means by which the public interest could be represented in some way in the making of key decisions on price and wage increases. The proposals vary from mere surveillance and publicity to public determination for one or a few industries. They may be arranged to show an order of progression of increasing severity.

(1) *Notice*.—Firms of great size and power would be required to give notice of intention to increase prices to some public authority. Such proposals for notice always include one or more of the following means of public followup action.

(2) *Hearings*.—Hearings might accompany notice requirements being either (a) mandatory, or mandatory unless a finding of lack of necessity was made, or (b) optional, within the discretion of the public authority designated to hold hearings. Or hearings might be held in the absence of notice requirements whenever economic stability was, in the opinion of the President or other authority, threatened by a prospective price and/or wage increase. In the former case law would require notice and hearing; in the latter it would provide only for hearing on an intervention basis. Notice and hearing for a category of industries or products would require a standing agency to administer the hearing requirements; hearings on an intervention basis could be held by a standing agency or by ad hoc groups designated by the President or other authority. In this discussion consideration is given to the two possibilities of: (a) notice and hearing, and (b) hearing with requirement of notice.

(3) *Factfinding*.—A finding of facts could be made on the basis of facts (a) gathered in a study, or (b) obtained in a hearing, or (c) adduced in both ways. Thus, factfinding is possible with or without hearings.

(4) *Publication of findings*.—The mildest form of sanction for notice and hearing, hearing, or factfinding requirements would be the force of an informed public opinion. Publication of finding is, therefore, an essential feature of proposals for these forms of public participation.

(5) *Advisory opinions*.—Publication of findings could be accompanied by an advisory opinion or recommended decision. This means of increasing the extent of public participation has been included in various proposals.

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<sup>9</sup> See, for example, H.R. 12785 (85th Cong., 2d sess.), H.R. 4870 and 6263 (86th Cong., 1st sess.), the final version of which is now known as the Reuss-Clark bill, and S. 215 the O'Mahoney bill. Hearings on the former set were held July 21 and 22, 1958, and Mar. 25, 26, and Apr. 9, 1959, before the House Subcommittee of the Committee on Government Operations. Hearings on S. 215 were held in April and May of 1959 by the Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary.

(6) *Delay*.—Suspension of wage or price increases might be provided by law (a) for a period after notice, (b) until hearings were held or a factfinding or other report issued, or (c) for a period after the date of issuance of a report or advisory opinion.

(7) *Public decision*.—Utility-type control has been suggested for one or a few industries, particularly steel. This would mean refusal of permission to make proposed price increases. In addition, public decision might be substituted for collective bargaining in such industries where there was a threat of cost-push inflation. This would mean refusal of permission to make wage increases.

### III. PROBLEMS INVOLVED IN PUBLIC CONSIDERATION OF PRICE AND WAGE INCREASES

These various proposals for public consideration present questions of economic consequences, including effects on sellers' inflation and economic growth. They also raise problems of administrative feasibility. The discussion which follows deals primarily with these administrative problems.

There are problems which are peculiar to each of the types of proposals listed in the preceding section. Obviously, utility-type control, which calls for authoritative decisions, would have much more far-reaching effects than the other types, which involve only surveillance and advisory or suspensory action. Also, requirements for notice and hearing on all proposed price increases would have much broader effects than authorization for intervention on an occasional basis where prospective wage or price decisions were regarded as a serious threat to the public interest. Nevertheless, these proposals separately and jointly raise several common problems of administrative feasibility. These common problems can be discussed under four headings, and attention given at the same time to some of the peculiar problems raised by the separate proposals.

#### THE PROBLEM OF SCOPE OF CONTROL

The first set of problems relates to the breadth or inclusiveness of the controls which would be imposed. There are three issues to be discussed.

##### *Prices or both prices and wages*

Should price increases only be considered or should both price and wage increases be included?

Some would argue for the former on the ground that corporate action rather than labor action is the chief cause of inflationary increases or that holding the price line is a means of preventing inflationary wage increases. On the other hand, the wage-price relationship in cost-push inflation is so close and so evident that it might be expected that policy determiners seeking the goal of price stability would feel that the objectives could not be attained without consideration of wage increases.

##### *Increases or both increases and failures to reduce prices*

Should the oversight of prices and wages extend only to increases or also to failure to make downward adjustments?

The current proposals and discussions anticipate inclusion only of increases. This is probably due primarily to these factors:

(a) The immediate problem appears to be avoidance of inflationary increases in wages and prices.

(b) The factors which would call for downward revision are varied and not too firmly grasped at this time.

(c) The political difficulties of forcing downward revision appear to be much greater than those of preventing increases. The former calls for departure from the status quo, in the case of wages for relinquishment of gains attained, and in the case of prices for gambles on the effects of changes.

It may be that machinery established for consideration of increases could serve later for consideration of downward revisions, but it may be assumed that no more than the problem of rising prices would be considered in initial legislation.

#### *Industries, companies, or products to be included*

How determine which of the thousands of decisions relating to prices and/or wages should be subject to public surveillance or supervision? What industries, companies, or products should be included?

What is contemplated in the proposals for public consideration of prices and wages is establishment of a category of industries, companies, or products which are or may be affected with a new kind of public interest. The new public interest is in inflationary effects from the exercise of market power. The question is: What industries, companies, or products are or may be affected with this public interest?

The discussion of this question will give attention to these specific points: (a) What are the criteria of inclusion which could be employed? (b) What are the policy considerations affecting decision on the width of inclusion? (c) What are the means by which Congress could determine the issues, either by its own action or through delegation to the President or an administrative agency?

#### *Criteria of inclusion*

*Market structure.*—The most commonly used measure of market power is the structure of the market.

Structure in turn is commonly measured by concentration ratios. Concentration ratios measure the proportion of an industry within the control of designated numbers of firms—1, 4, 8, or other number.

There are inherent difficulties in obtaining accurate concentration ratios. Shall the ratio be stated in terms of percentage of sales, sales value added in manufacture, employment, total assets, net capital assets, or capacity? Shall the ratio be determined on the basis of data for one or for more years? What number of sellers shall be used? Beyond these minimum determinations there are other difficulties. The chief of these is differentiation of the product or line of commerce, particularly where substitutes exist or new product lines are being introduced and old ones substantially modified. Another is the problem of defining the market; presumably this would be a national market, but often local or regional differences and international trade factors are significant. Also, questions arise as to what firms or units of production are sufficiently independent to be capable of independent action.

In view of the many inherent difficulties it is not surprising that existing data for measuring concentration ratios are not entirely satisfactory. Nor is it surprising that there is much discussion and difference of opinion over means of preparing satisfactory ratios. These conclusions are possible nevertheless: (1) No concentration ratio will be accepted as satisfactory by all economists, or what is more significant, by all of industry; hence, attack would be made on any which were used; (2) a reasonably satisfactory concentration ratio, based upon the data available from the Census Bureau, could probably be established by an agency of administration; and, (3) improvement in the accuracy of the ratios could be expected over a period of time as a result of collaboration between the agency and the Census Bureau.

Another factor in market structure is size. Some would argue that absolute size, in contrast to proportion of the market controlled, bears no necessary relation to concentration, and thus, it is held, to market power. The argument is that one or a small number of quite small firms may represent great concentration and possess considerable market power in a market which is limited either geographically or in the extent of total demand or for other reasons. Conversely, it is argued that large firms may not have a large share of the market for their products. Yet two facts do indicate the importance of size. First, size may be a useful indicator of markets needing further, more detailed study. Second, size does increase the effects of market power, and hence the public interest in the exercise of market power may be greatest in the case of units of large size.

Certain conclusions about market structure figures (concentration ratios; size measurement) as criteria of inclusion can be briefly stated. There are three major limitations on their utility and adequacy. First, the number of decisions on prices and wages on which there would be a possibility of exercise of market power, as indicated by concentration ratios and size measures, would be so large that no centralized agency could possibly deal with all of them, except by the development of a control bureaucracy of a size which the Nation would not tolerate. Second, in addition to the fact that market structure figures are only imperfect measures of potential market power, they fail to reveal the extent of exercise of power. Third, they do not show the sectors of the economy in which the use of market power may produce the greatest inflationary effect. The value of market structure figures is that they are useful as preliminary indicators of markets needing further and deeper study. Additional study could be focused on the exercise of power or the potential inflationary effects, or both of these.

*Market behavior.*—It might be argued that inclusion of an industry, company, or product line in a scheme for public consideration of prices should be dependent upon evidence of the historical exercise of market power to exact a larger return than would have been possible under a competitive market. Evidence of exaction of an excess return might be sought in such factors as price inflexibility, profit levels, relative shifting among market leaders, entry and exit of firms, and degree of capacity utilization. But only on the first two of these is the definite statistical data of even medium reliability, and even on the first two there are statistical inadequacies. These might not be serious if the conclusions to be drawn from price inflexibility and a high profit level were uniformly dependable. But high profits are not always indicative of the exercise of market power; these may be the result

of such factors as rapid innovations in product or process of producing it, continuing demand increases, abnormally high risk, or unusually rapid rates of technological obsolescence and correspondingly high replacement costs not allowed for in depreciation allowances. Price inflexibility may supply a first clue of the existence and exercise of market power, but a fuller market study may be needed to confirm the assumption created by the clue. At any rate economists are not agreed that it could be accepted as a single standard for judging the exercise of market power.

In antitrust cases a detailed market study leading to accumulation of evidence of various types is usually essential to establish the exercise of market power. Such studies may take years or months and be followed by painstaking presentation of the evidence to win a favorable judgment from a court. Obviously, something less conclusive than this is needed as a guide for determining whether the public should consider price increases in an industry.

Certain types of evidence on historical market behavior, such as price inflexibility or high profit levels, could corroborate other data but their acceptance as the only criteria for inclusion would be unlikely.

*Inflationary potential.*—One way to narrow the range of public consideration would be to select those strategic sectors of the economy in which the exercise of market power might have the greatest inflationary potential. But how determine inflationary potential? One method would be to measure the direct effect on the costs to ultimate users—householders, governments, and industrial and commercial users—of the price increase of a particular product. A second method would be to concentrate attention on those increases which diffused cost and price increases widely throughout the economic system. One economist has listed 15 industries which show the highest diffusion rating. He has suggested also that the most serious contribution to inflation could be expected to arise in sectors—

(a) which diffuse output widely throughout the system, (b) where demand is inelastic with respect to price, (c) where labor costs are a relatively high proportion of total costs and where productivity is increasing much less than the average, and (d) where wage-rate increases have a tendency to spread widely throughout the wage structure of the economy.<sup>10</sup>

Such tests would supply guides for limitation and concentration of public attention. Thus, for example, steel is an industry which is "a pivotal sector" according to the tests suggested.<sup>11</sup> A third method would be to observe wage and price movements to see which would be likely to establish patterns of behavior and to intervene with public hearings or other consideration only at these points. Annual moves for wage increases are now common; moreover, early wage decisions tend to set patterns for later demands. These wage moves may be made in different industries in different years, and hence public consideration would need to be based on close and alert observation to determine the key economic decisions which might set off chain effects. Similar observation might be made of independent price movements which would carry a heavy inflationary potential.

<sup>10</sup> John T. Dunlop, "Policy Problems: Choices and Proposals," in "Wages, Prices, Profits, and Productivity" (American Assembly, 1959), pp. 137 ff., quotation from pp. 153-154.

<sup>11</sup> *Ibid.*, p. 157.

Application of such criteria of inclusion would not be easy. For one thing, factual data is incomplete. The Consumer Price Index does not fully reveal the effects of particular price increases in basic industries. The wholesale price index would do this more adequately but it too would have elements of incompleteness, including failure to show the secondary impact of the product on the costs and prices of other products. The input-output tables from which diffusion effects could be determined are old and extend only to a limited number of product groupings. In addition, the latitude of judgment in determining inflationary potential, particularly where based on observation of wage and price moves, would be considerable.

*Conclusion.*—The judgment on inclusion would perhaps be based on a combination of types of criteria. Such a combination is illustrated by a recent study of the impact of steel prices on the postwar inflation.<sup>12</sup> Steel is shown to be an industry of high concentration, both in labor and company organization. It is known also to be an industry in which the diffusion effects of price increases are great and in which wage negotiations often have an important pattern-setting effect in the economy. The extent of the diffusion effect is revealed in this conclusion :

If steel prices had behaved like other industrial prices, the total industrial price index would have risen by 40 percent less over the last decade and less by 52 percent since 1953. Finished-goods prices would have risen less by 23 and 38 percent, respectively.<sup>13</sup>

By use of various kinds of data with respect to market behavior it is concluded that—

The wage and price behavior of the steel industry represents an important instance of inflation caused to a substantial degree by the exercise of market power.<sup>14</sup>

Studies of a similar kind for other industries, using multiple criteria of judgment, could serve as the basis for determinations to include particular industries in a program of Government surveillance of price and/or wage increases.

#### *Width of inclusion*

A dominant factor in determining the width of inclusion would be judgment on how large an effort the public wanted to assume. Undoubtedly the Congress would not want to provide for a new function of great complexity and difficulty unless there was hope for some reasonable amount of success in avoiding sellers' inflation. But this guide of purpose might be qualified by a desire for limitation of the number of occasions of public intervention. Consequently, some choice between completeness and limited intervention might be necessary. Some possibility for exaction of an excess charge from the public might exist in all cases where there was a high concentration ratio. On the other hand, there might be a desire to limit effort to those cases where the threat had been demonstrated by past experience to be real, or to those cases where the present threat of inflationary impact appeared to be material, or even further to only a few key decisions which would threaten a large inflationary impact.

<sup>12</sup> Otto Eckstein and Gary Fromm, "Steel and the Postwar Inflation," Study Paper No. 2, "Study of Employment, Growth and Price Levels," Joint Economic Committee, 86th Cong., 1st sess., Nov. 6, 1959.

<sup>13</sup> *Ibid.*, p. 34.

<sup>14</sup> *Ibid.*

One factor affecting judgment would be the type of public surveillance and consideration which was contemplated. The width of inclusiveness might vary inversely with the weight of the requirement which was imposed on industry and on the Government. Creation of administrative power to refuse permission to increase prices or wages, in effect a utility type of control, would certainly not be considered for more than a few industries. Mere notice requirements might, on the other hand, be extended to a considerable number of industries, companies, or products. Hearing requirements, which would be followed only by publicity of findings or advisory opinions, might apply on an optional basis to a wide number of companies or products but would not appear to be administratively feasible on a mandatory basis for more than a very limited number of proposed price or wage increases.

It would be possible to have a rather broad category for inclusion under notice requirements. This category could be defined in terms of a concentration ratio, or by this in combination with other factors, or by other means. But a narrowing of the scope of the span of public attention would be required before factfinding, hearings, or advisory recommendations were undertaken.

#### *Method of decision*

There are a number of feasible means of reaching decisions on this matter of inclusion.

First, Congress could specifically name the industries or products which would be covered by requirements. It would presumably do this if one or a few industries were designated for utility-type control. It could also list those industries or lines of commerce (with exemptions of relatively small companies) to which notice, hearing, or other requirements would apply.

Second, Congress could lay down in legislation a clear set of criteria and delegate to an administrative agency the responsibility of applying these criteria to available statistics on industries and markets and of making a determination of which companies and products were included. This method might be regarded as more feasible for notice requirements than for hearings or factfinding requirements, for in the case of the latter executive or administrative judgment on the need for hearing or factfinding in the particular instance might be regarded as desirable.

Third, Congress could lay down in legislation a general set of guidelines for the agency, but leave to it discretion to determine, within these guidelines, which industries, companies, or products would be covered.

Fourth, Congress could outline only the broad policy objectives to be sought and leave to the agency or to the President the determination of the industries, companies, or products, and the occasions, to which the powers granted would be applied.

Fifth, Congress could vary the definiteness of its prescriptions and the limitations on discretion of the agency or the President with the type of function to be exercised. It could follow the second or third method described above in regard to the requirement for notice, and the third or fourth with respect to factfinding, hearing, or delay requirements.

Finally, it is possible that these decisions could be made on the basis of congressional-executive cooperation. Congress could name a few industries or lines of commerce and add to these on the basis of administrative recommendation. Or, preferably perhaps, Congress could lay down guides for an administrative agency on industries to be required to give notice, and ask for administrative reports to Congress on those selected for inclusion, subject perhaps to congressional approval or veto. Or Congress could authorize hearings or factfinding within the discretion of the President and set up a fact-gathering agency which would recommend to the President and Congress further steps in regard to notice or other requirements.

#### THE PROBLEM OF STANDARDS

What standards would guide the President or an agency in the decision on whether price or wage increases were justifiable? Factual summaries without reference to any standards of judgment on whether an increase was justified would not be likely to carry weight in public opinion or with parties desiring increases; and advisory statements or public utility decisions would necessarily rest on standards of judgment.

Although standards of judgment would be required for any type of action, the difficulty of the problem of standards would be less where the only sanction was advisory or suspensory action than where a legally determinative decision for a period of some length was made. The latter type of decision would need to meet the standards of accuracy and fairness which would survive in courts; the former would need only to meet standards which would survive in the public forum and carry conviction of merit with the parties affected.

#### *Criteria for judgment on price increases*

There are many standards for judgment on justification for price increases but there are questions as to how appropriate and how acceptable these would be for prevention of price inflation.

Complex standards, such as have been used in utility regulation, would not serve usefully in inflation control. Value of property, determined either on replacement cost, market or exchange value, or prudent investment, would be determinable only after great delay; argument over the basis of determination and the accuracy of estimates would be unavoidable. Fair return, if determinable from complex analyses of cost-of-capital data, would also be ascertainable only through extensive study over too long a time span. The difficulties of determining these issues in an industry which included several sellers would be even greater than in the case of monopolistic utilities.

There are simpler standards which have been used in price control in emergency periods. These are easier to apply, though they too leave scope for uncertainty and difference of judgment. One is the historical earnings standard, according to which the reasonableness of returns today is measured by the returns in some base period or periods. This standard has been used both in emergency price control and in agricultural pricing decisions. The first difficulty is selection of an appropriate base period or base periods. The next is determinations of the extent to which use of the base period data must be conditioned or modified for factors different from those existing on base

period dates. Another difficulty is determining the method of calculating earnings: Is the proper test the dollar amount of earnings in the past period? Or the dollar amount modified for changes in investment? And for changes which have occurred in the real value of the dollar? Or shall earnings be estimated as a percentage of sales? Or as a percentage of invested capital (a resurrection of complex utility standards)? Or are all of these relevant to a decision?

Another standard used in emergency price control was historical margins, according to which the margin of markup by a seller was deemed to be reasonable if in accord with industry practice or his practice. It may be expected that a seller's own practice would be regarded as the more appropriate figure: It uses his own experience as the guide for determining the appropriate margin for him, rather than asking him to sleep in a bed furnished by a competitor or in a bed manufactured out of the average of the industry. Moreover, there is an inflationary trend in any effort to use margins determined as the mean or the average for the industry for no price controller would try to live with a figure which did not allow a margin of safety above the mean or average. Also averages may be above those used by the largest sellers, and encourage these to think in terms of higher margins.<sup>15</sup>

The standard historical margins for a particular seller would probably be called into question in some circumstances. The margin pricing standard converts every cost increase into a price increase greater than the cost increase. It has the same pyramiding effect as cost-plus pricing, which in fact it is. Factfinding bodies might conclude that a cost increase (wages; or price of a primary supplier) was justified but that the earnings of the company were so great, measured by other standards, that some absorption of cost increase was appropriate. This qualification of the historical margins standard might be thoroughly justified by all the circumstances; it would, however, be difficult, if not impossible, for factfinders or price limiters to obtain acceptance by a company of any direct limitation of its margin expectancies or goals, for those to most sellers are more sacrosanct than any laws of economics or standards of the public interest.

A further standard may be referred to as the comparative profit standard. According to this standard the profit rates of a concern seeking a price increase would be compared with those of other concerns in the same or other industries with comparable risks and comparable historical experience with respect to earnings rates. The standard of comparison with industries of comparable risk is one which has been prescribed for utility ratemaking by the Supreme Court of the United States.<sup>16</sup> The primary difficulties in use of this standard are, first, determining what industries have comparable risks, and, second, obtaining satisfactory earnings figures for these industries.

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<sup>15</sup> The author recalls a conversation 2 years after the end of wartime price controls with the manager of one of the Nation's largest wholesale grocery establishments. The manager, an ex-OPA official, pulled from his desk the margin-ceiling chart adopted by OPA for wholesale grocers, and said, "We use this as a guide in setting prices." I said, "But those margins are higher than you used before price control." He replied, "Oh, yes. But our competitors use them also." OPA had, in combating immediate inflation, contributed to permanent inflation.

<sup>16</sup> *Bluefield Waterworks & Improvement Co. v. Public Service Commission*, 262 U.S. 679, 692 (1923); *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

Still another standard is the rate of use of capacity. One economist has suggested a mathematical rule according to which price increases would be allowed if the rate of use of capacity exceeded a stated percentage.<sup>17</sup> To other economists this appears infeasible because of present lack of data on capacity and because of inability to measure or perhaps in some industries to even define capacity. Nevertheless, rate of use of capacity may be a significant standard in determining need for price increases. If capacity is used fully and demand is pressing upon supply, and if this is not a temporary situation, then a price increase may be deemed reasonable as means of inducing new investment. This may indeed be the most useful standard for determining the justification for price increases which have as their purpose increase of investor's return rather than coverage of wage increases.

The foregoing discussion on standards of judgment reveals only in part the difficulties of factfinding, advisory opinions, or decisions on prices. The difficulties would be compounded in a rapidly changing industrial scene with introduction of new products and new industries and rapid, even revolutionary, changes in technology of production.

The pace of developments outruns the accumulation of factual data and puts a strain on standards of measurement and comparison. Moreover, pricing judgments would need to be based on consideration of the need for incentives and for rewards for increased productivity and cost-saving measures and at the same time of the need for passing to the consumer and to the economy as a whole some of the gains in productivity in the more rapidly evolving areas of technological advance. Also, the evasive elements of quality improvement or deterioration, of discounts and other departures from standard price, of varieties of pricing technique and practice, and the uncertainties as to future market conditions would qualify accuracy in judgment on justification for price increases. Special difficulties would arise in judgment on the justification for price increases for single products in multiproduct industries or companies. Finally, it would be imperative that pricing judgments be made cautiously because of the delicacy of economic relationships and the danger that decisions could impede economic growth or deal unfairly with groups.

#### *Criteria for judgment on wage increases*

There are several standards which could be used for judging the justification for wage increases. These are cost of living, comparable wage rates, ability to pay, productivity increases, maintenance of purchasing power, essentiality. The first four of these are the most commonly suggested standards for settlement of wage disputes.

Although the several standards appear on superficial view to be simple, the simplicity of each would disappear in application and the applicability of each would be argued, either in general or in specific instances.

As to problems of application, it may be noted that there are technical difficulties in determining the real cost of living, comparable

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<sup>17</sup> Abba Lerner, "Employment, Growth, and Price Levels," hearings before the Joint Economic Committee, pt. 7, September 24, 1959, pp. 2265, 2266.

wage rates, ability to pay, and productivity increases. After discussion of these four standards one authority has concluded—

the range of possible wage rates which would follow from the various possible applications of each of the principles would generally be wider than normal variance between the parties in collective bargaining. The alternative meanings and measurements of each one of these standards are so diverse that the principle frequently can provide little help as an authoritative determination of wages.<sup>18</sup>

As to issues of applicability, brief comments may be made concerning each of the standards.

#### *Cost of living*

Wage increases could be regarded as reasonable if these merely compensated for an increase in the cost of living and considered unreasonable if they went beyond this point. The reasonableness of cost of living increases would generally be accepted, though some might argue that this would continue the spiral of wage-price or price-wage increases. The larger objection to the standard would be that it, by not allowing for productivity increases, fixed on labor a stationary real wage. Since no one would want to deny any possibility of further increases in the standard of living of labor groups, this standard could be useful only as one, but not as the sole, standard for judgment.

#### *Comparable wage rates*

Wage increases could be granted where the level of payment was below that for comparable work in other plants, companies, or industries, and denied where this was not true. Technical difficulties in applying this standard are peculiarly forbidding. In addition, it would be argued in instances that historical differences were justified and hence that denial of increases in upper-level wage scales was unreasonable. More significant, the comparable-wage-rate standard, like the cost-of-living standard, will, if applied negatively, fix a ceiling on the standard of living of laborers, except for improvements resulting from price decreases, and improvements of product quality. It, again like the cost of living standard, would be useful as a principle of affirmative judgment on wage increases, but of small utility as a principle of negative judgment.

#### *Ability to pay*

The great technical difficulty in application of this standard is that it requires determination of ability to pay, and thus leads into complexities similar to those in determining the reasonableness of price increases. Beyond this, the applicability of the standard to the determination of the reasonableness of wage increases is limited. It would distort the wage structure by granting to labor the benefits of superior efficiency or superior market power of particular concerns or industries. Such distortions would lead inevitably to movements for increases in other sectors of the economy. The preferable course of action, where income sufficiently large to justify a la-

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<sup>18</sup> John T. Dunlop, "The Economics of Wage Dispute Settlement," *Law and Contemporary Problems* (spring, 1947), 293.

bor-sharing increment exists, might be to decrease prices. This, however, may not be voluntarily done and is not likely to be forced by government, even when the result of market power. At the same time, government would not in all probability resist wage increases which could be justified on the ability-to-pay basis, since these would require no price increases.

#### *Productivity increases*

According to this criteria wage increases could be considered as reasonable if there had been increases in productivity per man-hour of work. This would undoubtedly be the primary criterion for determination of the reasonableness of wage increases. The difficulty would be in determining or applying the appropriate measure of productivity increase. If the total gain from productivity increases in an industry of improving technology were taken by investors and labor in the industry, then the rest of society would obtain no gains from the increases, an imbalance would be created in the wage relationships among industries, pressure would be created on centers of market power in other industries to seek comparable gains, and the total effect would be an inflationary trend in prices. These results could be avoided if the average increase in productivity in the whole economy were used as the test. The average increase is a measure which would be accepted widely as the correct one. But in addition to difficulties of accurately estimating the average increase, there would be the problem of determining in particular instances whether the urgent demand for more than the average was justified by special factors.

#### *Maintenance of purchasing power*

The argument has sometimes been advanced that wage increases should be made to maintain or even to increase purchasing power. This argument, in a sense, overlaps other criteria, for cost-of-living and productivity increases in wages have the effect of maintaining purchasing power. To the extent that the argument urges more than these amounts, it would be weak in periods of full employment and of demand sufficient to create inflation, and would assume that wage increases rather than price decreases was the remedy in periods of falling employment or decreasing demand. Yet the absence of effective pressures for price reductions would lead to argument for wage increases to maintain purchasing power and thus this standard of judgment would be suggested for public consideration.

#### *Essentiality*

In World War II one test that evolved for public wage determinations was the necessity of drawing more labor to an essential enterprise. This too would probably be sometimes suggested as a standard for judgment in administration of a new system of public consideration of wage increases.

#### *Conclusion*

The foregoing discussion highlights some of the complexities of public price and wage consideration, though full appreciation of the extent of these complexities is difficult to grasp without experience in the choice and application of standards. The history of wartime control of prices and wages showed ever-increasing complexity and variation in standards of judgment.

It is probable that Congress could do no more than set forth the broad objectives to be sought. Standards of judgment would be evolved by an administrative agency or by ad hoc factfinding or hearing groups. It is possible that this would be largely a pragmatic process, in the beginning at least, in which the claims, counterclaims, and factors in the situation, would be evaluated separately in each instance. On the other hand, a continuing center of study in the executive branch might clarify guides for judgment which could be helpful both in public consideration and in private negotiations or deliberations.

Even though the considerations affecting price and wage judgments are complex and multiple, there are criteria of judgment from which informed and responsible decisions can be made. If the public consideration only extended to factfinding, hearings, advisory opinions, and executive pressure then the effectiveness of public participation, and the safeguards against errors in this participation, would rest in the inherent correctness of the public decisions and the confidence in this correctness from the public and the affected interests. If a utility type of control were established, then greater effectiveness would be sought through authoritative public decisions and the safeguard for accuracy in judgment would rest more largely in the internal processes of government.

#### THE PROBLEM OF TYPE OF ACTION

The simplest form of public action would be occasional intervention through factfinding or hearing procedures without requirements for notice of proposed wage or price increases. On the basis of knowledge obtained on increases which were in prospect or which had been made, a public authority would determine that a hearing should be held or a factfinding study made. Presumably the intervention would occur only in cases where there was threat of a serious inflationary impact. There would appear to be no reason why the President could not take action of this kind without a statute. Yet any fixed program of action of this kind would depend upon congressional authorization. The statute would indicate the contingency under which the President would act. It could be phrased to emphasize emergency conditions threatening economic stability. Or it could be framed to emphasize inflationary threats which were of material significance without restriction to situations deemed to be emergencies. At any rate it could be assumed that the determination on whether the contingency stated in the statute existed would rest with the President.

This minimal amount of public action would be subject to the objection that it would be ineffectual toward prevention of sellers' inflation. It could be argued that provision for presidential intervention would be merely a feint toward the problem of sellers' inflation in the absence of (1) notice of prospective changes, (2) continuing surveillance of markets, and (3) conclusions as to justification of proposed increases.

The key decision is whether notice should be required. The advantages, or even necessity, of notice are apparent. Without notice no system of continuing surveillance can be set up. And without notice intervention by the President would often be possible only after increases in prices were in effect. Consideration of price

changes at this stage would in many, perhaps almost all, cases be futile.

The requirements of notice would constitute no real problem as far as wage increases are concerned. The Labor Management Relations Act now requires 60 days notice to the other party in a collective bargaining contract of intent to seek changes in the contract and notice thereafter to the Federal Mediation and Conciliation Service of the existence of a dispute. It would be a relatively simple matter to modify these requirements to include notice to an agency responsible for surveillance on wage and price increases.

It would also be relatively simple to require industry to give notice that wage increases would require price changes. As for price changes made independently of wage increases, the problems presented are more difficult. The volume of changes to be listed would be much greater than in the case of wages. Industry would complain that the requirement was burdensome and that notice with a waiting period was infeasible in all cases. The argument has also been made that industry would be hesitant to make price decreases if it knew that increases to former or new levels were to be subject to public scrutiny.<sup>19</sup>

Notice appears to be essential for any effective public consideration of inflationary increases in prices arising from market power. Yet the requirement could not be imposed without careful consideration of certain problems respecting it: First, is the problem of determining the width and criteria of inclusion and of applying the criteria of inclusion. Second, is the problem of defining the requirement: What is to be the period of notice? What is included in the requirement: elimination of discounts, elimination of services and allowances, change in form and quality of product so as to supply less to the consumer at the same price, etc? What exceptions shall be granted—on grounds of infeasibility of reporting, seasonal or other temporary changes, or other factors? Except for the period of notice, such determinations would need to be vested in an administrative agency, which in its turn would encounter extremely vexing problems.

Surveillance, following notice, could take many forms. A first step might be staff analysis of notices to determine which increases carried sufficient inflationary threat to justify further public consideration. It would not be feasible or desirable to take followup action on every proposed price increase. It could be expected that the agency would have some standards which could be applied by the staff, or by the agency on staff recommendation, for winnowing through listed price increases to determine which called for further consideration. The number of price increases proposed would be too numerous—even in a single industry or product line—to allow for hearings on all.

This preliminary step could be taken with good judgment only with the aid of a well-informed staff. There would be need for a staff with knowledge of trends in the economy, conditions in particular markets, and pricing practices in industries and companies from which reports were received.

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<sup>19</sup> See testimony of Roger Blough and others before the Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary, "Administered Prices," pt. II, April and May 1959.

Assuming decision to give further consideration to a proposed increase, what further steps might follow? First, it would be possible to have a factfinding study, either by an agency or an ad hoc committee. A report based on such a study could be the means by which public influence was exerted on those proposing the increase. This is the well-known practice in labor disputes. In labor disputes, however, the report goes back to the collective bargaining table for consideration by opposed parties. In the case of consideration of proposed price or wage increases because of their inflationary effect the report would go to the party proposing the increase for its consideration. In such a case the argument that a public hearing was necessary to insure fairness to parties proposing an increase and to the public would probably be forcefully advanced and accepted. Second, it could be assumed that some steps would need to be taken in advance of a hearing. There would be need for assemblage of statistical data. There would also be need for some authority representing the public to analyze this data and present a public case at the hearing. Third, the nature of the hearing would need to be carefully considered. Utility rate hearings often take many months. The issues to be considered in inflationary concentration of power cases would be equally as complex, often more complex. But long delays in decision on price or wage increases could not be tolerated. The effectiveness of the effort to control sellers' inflation would be destroyed if there was not a firm resolve to limit the length of hearings. Necessarily, all issues could not be "litigated"; the hearing would be more legislative, less judicial, in type than utility rate proceedings.

A program of surveillance of prices or of wages and prices for a number of industries or products would collapse from its own weight if hearing procedures and steps leading to hearings had to follow the judicialized model which has developed for utility rate regulation. If one or a few industries were chosen for utility type of control the need for simplification would still be presented but in a more difficult form. In utility type of control decisions would be subject to judicial review, at least on constitutional grounds. The record would have to be adequate to substantiate the decision made. It may be that before a utility type of control is imposed on another industry a congressional committee should consider whether, or by what means, procedures can be sufficiently simplified to prevent delays of years in reaching final decisions. This kind of decisionmaking process is unfitted for dynamic American industrial conditions.

The need for expedition in processes would be imperative because suspension of wage or price increases during factfinding or hearing would be vital to the success of the public effort. In the absence of suspension the chain effects of wage or price increases through industry would be so great that, as Humpty Dumpty found for the egg, no recourse would exist for undoing what had already occurred. But suspension would and could not be accepted for long in a dynamic economy. A principle of economy in administration would have to work in two ways: in careful choice and restriction of number of factfinding or hearing proceedings to those which could be handled administratively, and in simplification of proceedings to insure prompt disposal.

What action would follow factfinding studies or hearings? Aside from the possibility of utility-type control for one or a few industries, all suggestions for public participation envisage that reliance will be placed on nonlegal or soft sanctions. The first is the appeal to rational judgment resting in a correct statement of facts from an authority having a reputation for fairness and for devotion to the general interests. The second is the support of public opinion. The third is the influence of an executive recommendation.

It may be assumed that the first step following factfinding studies or hearing in a program of public surveillance would be a report. This report would include a summary of the facts, and to the extent that the facts pointed toward a conclusion a mere factual summary could focus attention on the issue of justification for an increase. The limitations of such a report are that it does not sufficiently aid a public judgment on this issue of justification. If public opinion is to be effective it may have to be focused by a recommendation or advisory opinion. Some might argue that these issues of wage and price level are too complex to be entrusted to inexpert public opinion. On the other hand, if dependence is to be placed on public opinion as a sanction, then there is strong argument for expert guidance to the public through a definite recommendation or advisory opinion.

There are major limitations upon public opinion as a sanction. Few newspapers publish factfinding reports in labor disputes and probably an equally small number would publish reports on proposed wage or price increases which might have inflationary effects. The public gets incomplete and distorted information on the contents of an important public report. It may be that the effectiveness of a program resting on public opinion as a sanction would be dependent, in considerable measure, on whether Government would be willing to pay the costs of printing factfinding reports and advisory opinions. Yet this would still not overcome another limitation of public opinion as a sanction. This is the limitation of the span of attention of the citizen. The citizen can give his attention to only a limited number of things at a particular time. If, therefore, hearings are held or factfinding reports issued only occasionally, then the chance of obtaining public attention is increased.

The weight of recommendations would be materially dependent, not alone on public opinion, but on the standing of the governmental authority which made the recommendation. If these were Presidential recommendations they would undoubtedly carry great force; if these came from an agency or an ad hoc group the weight of the recommendation would presumably be less.

Concluding this section it can be said that the basic choices in public policy, if public consideration were undertaken, appear to be from among these alternatives:

- (1) A minimal program of Presidential intervention in occasional instances.
- (2) Notice requirements, optional factfinding studies or hearings with simplified procedures.

Either of the above would be followed by public report and possibly recommendations or advisory opinions.

- (3) Utility-type control for one or a few industries.

## THE PROBLEM OF ORGANIZATION

A number of possibilities with respect to organization for combatting sellers' inflation can be distinguished.

(1) The minimum proposal for public intervention presents few organization problems. This is the proposal for Presidential establishment of ad hoc hearing or factfinding boards at his discretion. The only problem would be a Presidential source of information on need for establishment of such boards. This might be advisers in the Executive Office of the President, or these aided by the executive departments and the Federal Trade Commission and possibly the Federal Reserve Board. Or the President or the Congress might desire the establishment of some new study center to make recommendations to him on need for and advisability of action.

(2) The proposal for a utility type of control for one or a few industries revives some old problems of organization. These center around the issue of whether the traditional system of commission organization should be used for new activities, or whether modifications of that system would insure more effective regulation. As to possible modifications there is division of opinion as to the desirable ends to be sought, some believing that new steps should be taken to insure judicial independence, others believing that changes should aim toward more aggressive representation of the public interest and more attention to development of policy standards. Consideration of these trends in criticism would be desirable before determining a form of organization for a new regulatory function.<sup>20</sup>

(3) If action different from the two suggested above is contemplated, then special problems of organization are presented. The first possibility would be establishment of a continuing study center. Such a center might have two responsibilities. The first would be to assemble and analyze information on the extent of the threat of inflation through concentrations of market power and on the locations of power through which any such threat might materialize. The second would be to make recommendations to the Congress and the President on feasible public policies for meeting dangers to the economy arising from inflationary concentrations of power.

(4) Another possibility would be a study and action center. Such a center, in addition to the few functions stated in the preceding paragraph, could have these action responsibilities: First, it could receive notices of proposed price and wage increases and analyze these for the purpose of determining which increases deserved further study. Second, it could make preliminary investigations or studies on those increases with the objective of determining whether the proposed increase should be suspended and a full-scale investigation through factfinding or hearing proceedings should be initiated. Third, it could present the case against an increase, or for modification or limitation of an increase, at factfinding or hearing proceedings.

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<sup>20</sup> For recent discussion see Louis J. Hector, "Problems of the CAB and the Regulatory Commissions," Memorandum to the President, Sept. 10, 1959; Ferrel Heady, "The New Reform Movement in Regulatory Administration," *Public Administration Review*, vol. XIX (spring, 1959), pp. 89-100; Emmette S. Redford, "The Regulatory Commissions: The Need for a New Look" (Bureau of Public Administration, University of Maryland, 1959); and "Independent Regulatory Commissions," report of the Special Subcommittee on Legislative Oversight of the Committee on Interstate and Foreign Commerce, H. Rept. No. 2711, 85th Cong., 2d sess., Jan. 3, 1959.

(5) If factfinding or hearing procedures were desired, these could be provided in several ways: (a) Through ad hoc boards set up by the President; (b) through ad hoc boards set up by the agency serving as the study and the action center; (c) by the agency itself, which would in this case have combined functions of initiation and consideration similar to the pattern of the regulatory commissions; or (d) by hearing or factfinding panels attached to but independent from the control of the agency responsible for preliminary study, initiation, and presentation of the case against an increase.

The primary considerations in choice from among these alternatives would be (1) the frequency with which proceedings of the type would be conducted, (2) the degree of need for consistency in application of standards, (3) the degree of independence desired in the proceedings and in the preparation of a report, and (4) the extent to which Presidential participation was desired.

If study, or study-action, or study-action-hearing functions were to be performed on a continuing basis then a problem of designation or creation of an agency responsible for such functions would arise. What possibilities would exist? First, it is unlikely that any of the four departments of administration dealing with economic matters—Agriculture, Commerce, Labor, Treasury—would be used. The function to be performed is not closely related to existing functions of any of these four. Also the clientele orientations of the first three of these would militate against their acceptability to the various groups affected by the program. Second, the functions could be delegated to the Federal Trade Commission. Favorable to this is the fact that the Federal Trade Commission has acquired knowledge and experience in dealing with concentrations of economic power, both through its investigations under section 6 of the Federal Trade Commission Act and through its proceedings under section 5 of that act and under the Clayton Act. Objections to locating the functions in the Federal Trade Commission would include the following: (1) That there was need for an agency whose effectiveness for these functions would not be impaired by the traditions and methods of the Federal Trade Commission, including its primary concern with antitrust as a weapon of public policy and its use of procedures designed primarily for law enforcement; and (2) that the form of organization was inappropriate, either because the hearing function would not be sufficiently independent from the study and action functions to insure confidence or that the study and action functions would be too much removed from the influence of the President. Third, if only a study function were involved it could be placed in the Council of Economic Advisers or in a new staff agency in the Executive Office of the President. Fourth, if more than study functions were involved then a new agency outside of the existing departments or the Executive Office might be created. If only study and action functions were to be placed in the agency, with factfinding or hearing functions placed in ad hoc boards or in panels attached to but independent of the agency, then the argument for placing the agency under Presidential direction would undoubtedly be compelling. If factfinding and hearing procedures were to be placed in this agency, then the question of relation to the President would be more complex, involving for its solution, judgment on whether close association of this function with the Presidency would impair or strengthen its effectiveness. For the special objectives to be

attained in this suggested type of program it may be that both independence and Presidential connection would be desirable, and that to this end factfinding or hearing should be by panels in whose impartiality the public would have full confidence but that these would act because the President or an agency serving for him believed that a threat to the public interest was involved.

#### IV. CONCLUSIONS

It is essential to view the consideration of the problem of sellers' inflation and the proposals with respect to its prevention with perspective. To do so, several factors must be kept in mind.

(1) Price stability is one but not the sole, or even chief, economic objective in public policy. Economic growth, high employment levels, and fair distribution of returns are dominant objectives for the economy, and price stability has significance as it is related to these objectives.

(2) Sellers' inflation is only one of the possible manifestations of the power of large private organizations in our society. These organizations may be able to exert great political influence, to influence the thinking of the public through nationwide communications, to stop production in vital sectors of the economy, to resist innovations in production and distribution and changes in policy to accord with movements in the economy, as well as use market power to obtain a larger benefit, at least temporarily, than could be obtained in a market-controlled economy. This view of the potentials of large organizations does not deny that large organization has been the means of introducing new products, increasing production, and facilitating mass distribution at lowered cost; it only recognizes that the development of large organizations has also brought some serious problems, of which the potentiality for the exercise of market power with inflationary effects is one.

(3) Current proposals seek to meet only a part of the problem of use of market power to control price and wage levels. These proposals deal only with price or wage increases, leaving untouched the problem of price rigidity, that is, the failure of prices to move downward with declines in demand or improvements in production.

(4) The administrative difficulties to be faced in public effort to prevent the use of market power to produce inflationary increases in prices and wages would be tremendous. Over what industries, companies, or products would surveillance be necessary? Could the public effort be successful without surveillance over a wide range of American industry? Could public effort be pinpointed at the strategic centers from which new inflationary pressures would arise? Could public attention be brought to these centers in time to prevent the beginning of new inflationary chain effects? What type of public action would be needed. Would notice of prospective price and wage increases be necessary? If so, would exceptions to the requirements for notice be required to meet special situations in industry? What follow-up action would be taken after receipt of notice? Could the consideration of filings and the making of fact studies or holding of hearings be completed in the brief period within which judgment would be required? Would factfinding, report on hearings, and advisory recommendations carry real weight with the companies or

unions seeking increases? What standards could be used in determining whether to investigate or hold hearings, what to pinpoint in factfinding or hearing reports, what recommendations to make? How could public participation be organized so as to produce confidence in reports but at the same time to produce enough support from the Government to carry weight with the parties affected? Could public authority be exercised with aggressive and continuing attention to public interests or would organs of administration become sluggish and weak in motivation? Would a continuing type of control, similar to utility control, be desirable for a few sectors of the economy? If so, for which sectors? Could agencies for administration of such controls maintain the independence and vigor needed for success?

(5) Government surveillance of price and wage increases would have political effects. New issues in politics would be created and these would relate to matters of intense interest to parties. The pressures on Government from labor and investor interests would be increased, and the political struggle among groups might be intensified. The political resistance to adverse Government actions on wages and prices would be great, so great in fact that it could be expected that only the power and prestige of the Presidency could be expected to carry weight against the resistance. And allegations of Presidential partiality toward particular groups would be unavoidable.

(6) The ultimate test of public surveillance would lie in the economic and social results. The surveillance would need to be exercised with consideration of multiple objectives, including not only that of price stability but the effects upon economic growth, employment, and purchasing power, national security, and justice to economic groups. To balance these objectives and give each its proper weight in a rapidly changing economy, and to conclude public consideration with the expedition required to avoid adverse effects on the economy, would constitute a large challenge to administrative and political authorities seeking to avoid inflationary wage and price increases.

The administrative difficulties and political consequences of public action, and the strong desire to maintain private decision on matters of wages and prices, has led to a great reluctance to consider means of public participation in these matters, even when production was impeded over a protracted period by a strike in a key industry. Patience may be an attribute of wisdom on matters of this kind. At the same time, the growth of market power leads inevitably to consideration of public participation. In the labor field provision for notice and for fact finding in emergencies is already part of public policy. The means of dealing with stoppage of industry, inflationary threats, and other types of situations created by the development of large organizations with economic power will be one of the most difficult areas of policy in the future.

It may be hoped that the threats from concentrations of economic power may be met by a variety of Government policies. A prime need is more effective enforcement of antitrust laws and amendments of these laws to insure more complete attainment of their purpose. Government policies which tend to support and strengthen the market power of groups need to be considered in terms of their effects on the power of these groups over the economy. Such developments would aim toward correction and prevention of all the manifestations of

market power and would lessen the need for consideration of public intervention on prices and wages. Yet it is unlikely that developments of these types will go far enough to prevent the existence of inflationary concentrations of market power. Since this is true, the means of restraining the use of market power toward inflationary ends has now begun to be considered. Some would warn, "Beware beginnings"; others would advise, "Begin now to acquire knowledge and experience on the problem."

If a beginning toward public consideration of prices and/or wages which may have inflationary effects is desired, the following lines of policy may be the most feasible for effective administration and hence the ones on which consideration should be focused.

(1) Establishment of a study center in the executive branch of the Government to analyze the effects of concentrated market power on prices and wages, to pinpoint the centers of concentrated power which have the largest potential for starting inflationary chain movements, and to recommend to the President and to the Congress policies for avoiding inflationary moves from centers of market power.

(2) Requirement of notice of prospective changes in prices, or of wages which would lead to price increases, where such changes would issue from positions of power and would have a serious inflationary effect. The selection of industries, companies, or products for which this requirement would be imposed would need to be made carefully so as to limit the burden on Government and on economic organizations. It would probably be desirable for Congress to retain control over the selection, either through strict definition of categories to be included, or through approval or veto powers over executive determinations on inclusion of specific industries, companies or products, or categories of these. In an area of evolving policy, continued congressional participation and executive-congressional cooperation may be both desirable and necessary.

(3) Authorization to the President to set up fact-finding and hearing boards to study prospective price and/or wage increases and issue advisory statements or recommendations. A study center, on the basis of information obtained from notices or otherwise, could advise the President on the need for fact-finding and hearing boards and could be authorized also to present facts and arguments to the boards. Whether the burden imposed upon the President by such requirements would be so large as to require consideration of establishment of other administrative arrangements would be revealed as the scope and frequency of public intervention was determined by experience or further policy decisions.

(4) Development of a policy for the steel industry. Because of the inflationary record and potential of steel prices and wages, a policy for the steel industry alone could be considered as an alternative to requirements for a number of industries or products, such as our outlined under paragraphs 2 and 3 above. A policy for the steel industry might have the dual objective of avoiding inflationary effects of concentrated market power and of preventing stoppages of production. The alternatives of policy which could be considered extend over the whole range of possibilities discussed in this paper, including notice, fact finding, hearings, advisory opinions, and public determination in case of serious threat to the public interest.



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**STUDY PAPER NO. 11**  
**A BRIEF INTERPRETIVE SURVEY OF**  
**WAGE-PRICE PROBLEMS IN EUROPE**  
**(BY MARK W. LEISERSON)**

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## STUDY PAPER NO. 11

# A BRIEF INTERPRETIVE SURVEY OF WAGE-PRICE PROBLEMS IN WESTERN EUROPE

(By Mark W. Leiserson)

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### I. INTRODUCTION

A characteristic of recent discussions of inflation is the emphasis upon the structure and operation of labor and product markets in the inflationary process. A common theme in the arguments of those who interpret the price increases of the past few years as evidence of a new-style inflation is the assertion that traditional theories of inflation stated in terms of excessive aggregate demand or too much money fail to take into account the inflationary potential inherent in the economic power of business and labor groups operating in imperfectly competitive markets. Frequently, the existence of this power is identified as an independent source or cause of inflation, producing what is labeled generally as cost-push inflation. The accompanying implication as far as public policy is concerned is that anti-inflationary action should take the form of governmental measures to limit directly the power of private economic organizations—whether business or labor—to make inflationary wage and price decisions, since, at high levels of employment, the ordinary competitive pressures of the market are judged to be insufficient to accomplish the required economic discipline.

A variety of proposals have been offered regarding the form this direct governmental intervention in wage-price setting might take. Some have been as drastic as a prohibition of collective bargaining organizations beyond the confines of a single plant or firm. Others have been as mild as the systematic use of moral suasion by public authorities in key sectors to make wage-price decisions more responsible to the public interest in noninflationary settlements. All these suggestions, however, rest upon the basic proposition that Government economic policy to control inflation cannot rely only upon general fiscal and monetary measures, that, in an economy where the Government undertakes to maintain full employment and economic growth, price stability requires increased supervision of the structure and operation of private systems of wage-price determination.

There are probably few who would dispute the validity of this proposition as stated. But there is continuing, even bitter controversy about the extent to which the Government should attempt to control levels of employment and economic growth and about the degree of direct intervention into economic processes judged necessary or desirable for successful achievement of such overall policy objectives.

This study is an attempt to see what light may be thrown on the general problem of wage-price stability by a survey of recent experience in Western Europe with particular emphasis on the interaction between Government policy and private economic organizations important in wage-price determination. Being ambitious in scope, it must necessarily be more modest in its ultimate objectives. A thorough analysis of economic developments within all the individual countries is obviously impossible within the confines of a brief monograph. Moreover, it will be necessary to concentrate principally upon the wage determination side of the wage-price problems.

But a more fundamental limitation of this kind of survey stems from the inherent difficulties of making overall comparisons between countries. These inevitably do violence to the diversity and complexity within any single national economy. There is no gainsaying the validity of the argument that "international comparisons of industrial relations systems may be less fruitful, or even misleading, if confined solely to countrywide systems."<sup>1</sup> Nevertheless, such comparisons may not be completely useless provided sufficient care is taken not to impute to any conclusions reached greater precision and applicability than can be justified given the high level of generalization involved.

There remains the question of how relevant European experience is for the United States. Certainly there can be no expectation of deriving simple lessons from the struggles against inflation in Western Europe. The profound differences in economic structure, and in social and political organization are sufficient to preclude any easy conclusions regarding the effectiveness, for example, of different types of economic policy measures. Since our observations of economic policy developments in Europe cannot be carried out under the controlled conditions of a laboratory, the judgment of how important the differences between countries are to any interpretation of events can never be wholly objective.

Furthermore, any conclusions regarding the effectiveness of different types of policy measures can only be stated relative to some system of underlying social and economic values and cannot generally yield definitive determinations of the objective efficiency of policy instruments. For it is advances in resource utilization, technological progress, and deliberate institutional change which lie at the center of the problems of economic growth and stability rather than questions concerning the efficient operation of a particular economic system with unchanging technological horizons and given political and economic institutions. Consequently comparisons of differing approaches to the problem of reconciling wage-price stability with full employment economic growth must take into account the constellation of

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<sup>1</sup> John T. Dunlop, "Industrial Relations Systems," New York; Henry Holt & Co., 1958, P. 25.

group and individual interests within a particular economy and the manner in which those interests influence and are influenced by governmental actions. Indeed, from one point of view the problem of wage-price stability may be viewed as a peculiarly acute illustration of the difficulties of achieving an effective adaptation of policy instruments designed to serve the common interest in high and growing levels of real income in the face of conflicting claims regarding the distribution of that income and of the sacrifices entailed in the process of production. It is an obvious and commonplace observation that these conflicts, and hence the possible instabilities they cause, can never be completely eliminated in a free and progressive economy.

In the analysis and evaluation of European economic policies, therefore, it is essential to keep clearly in mind that the problem of wage-price stability cannot be separated from the basic noneconomic issues surrounding the relations between private and public interests. In particular, comparative judgments of different economic policy and organizational structures with respect to their effect on economic growth and stability can, in general, be made only by abstracting from considerations of equity in the distribution of social and economic welfare. This is merely to say that the formulation of economic policy is not simply a problem of finding out how to get what is wanted most efficiently but in large measure, is a problem of determining, implicitly, or explicitly, what it is that is wanted, as well. Hence, the present inquiry is not to be interpreted as a search for efficient instruments of policy whose application might insure wage-price stability in a modern industrial economy, but as an attempt to observe the way in which public and private policies and institutions in a few countries have actually operated.

## II. THE STATISTICAL RECORD

Before taking a look at the character of wage-price problems in individual countries, it will be useful to survey briefly the comparative economic performances of Western European countries as recorded in general statistical indicators of output, employment, prices and wages, etc.

In table 1 the average annual increases in real per capita gross national product have been calculated for the periods 1949-53, 1953-58, and 1949-58 along with the associated increases in price levels. The 10 European countries and the United States have been arranged in order of the average rate of change in output per capita over the whole period 1949-58. Although the rates of annual increase in both output per capita and price levels since 1949 range roughly from 2 to 7 percent the figures show no clear pattern of association between them. The period 1949-53 covering the rise and subsequent fall of inflationary pressures accompanying the 1949 devaluation and the Korean war boom of 1950-51 shows a higher rate of price increase than in 1953-58, but the differences in growth rates are less marked.

TABLE 1.—Average annual changes in per capita output<sup>1</sup> and prices<sup>2</sup> by country, 1949-58

[Percent]

	1949-58		1949-53		1953-58	
	Output	Prices	Output	Prices	Output	Prices
Austria.....	6.5	7.2	5.8	11.9	6.9	3.4
Germany (Federal Republic).....	6.3	<sup>3</sup> 3.3	10.0	<sup>4</sup> 4.8	5.4	2.3
Italy.....	5.5	2.9	5.8	4.5	5.3	1.7
France.....	4.0	7.0	4.2	9.9	3.9	4.6
Switzerland.....	3.5	<sup>5</sup> 1.2	3.9	1.1	3.2	<sup>6</sup> 1.2
Netherlands.....	3.2	4.3	2.7	4.9	3.6	3.8
Belgium.....	2.6	<sup>5</sup> 2.5	3.0	2.3	2.4	<sup>6</sup> 2.7
Sweden.....	2.5	5.1	2.1	7.5	2.9	3.2
Norway.....	2.5	5.4	3.6	7.4	1.6	3.8
Denmark.....	2.1	4.0	2.8	5.5	1.6	2.9
United Kingdom.....	1.9	4.5	2.2	5.1	1.8	4.1
United States.....	1.9	2.4	4.5	2.7	(-1)	2.3

<sup>1</sup> Real gross national product per capita.<sup>2</sup> Price indexes of gross national product.<sup>3</sup> 1950-53.<sup>4</sup> 1950-53.<sup>5</sup> 1949-57.<sup>6</sup> 1953-57.

Source: OEEC, "General Statistics."

In general, the two periods may be taken to represent two distinct types of challenges to the stability characteristics of the wage-price mechanism in the various countries. That is, the problems of the first period were to a large extent dominated by the difficulties of adjustment to what for any individual country appeared as primarily external influences—the exchange devaluation of 1949 and sharp fluctuations in export demand and import prices. Since 1953, on the other hand, the international economic situation has been stable enough to bring problems of internal stability to the fore.

While the relation between price and per capita output movements is blurred, a somewhat more consistent pattern may be discerned in the movement of price levels alone. Over the whole period 1949-58 the countries ranked by rate of price increase fall into three more or less distinct groups. In four countries—Belgium, Germany, Italy, and Switzerland—the annual rate of increase in prices was consistently low, averaging between 1 and 3½ percent per annum. In a second group—Denmark, Netherlands, Norway, Sweden, and the United Kingdom—the rate of price increase has been significantly higher, averaging from 4 to about 5.5 percent. France and Austria with an average annual rate of price increase of 7 and 7.2 percent constitute a third group. Moreover, this same grouping (with the exception of Austria) appears to hold for the two subperiods as well, despite the pronounced difference between the periods in the movement of import prices.

From the comparison between changes in price levels and import prices in table 2 it is apparent that rising costs associated with increases in external prices can be judged an important element in general price movements only for the years 1949-53. For those years the magnitude and impact (as roughly measured by the ratio of imports to national product) of higher costs of imports seem to be closely related (except for France and Belgium) to the upward shifts in the price level in the various countries. For the following years, how-

ever, the same statement cannot be made; yet the highest price increases were still concentrated among the same group of countries. This suggests (leaving France and Austria aside as somewhat special cases), that the observed gross similarity in price movements between Norway, Sweden, Netherlands, Denmark, and the United Kingdom on the one hand, and Italy, West Germany, Belgium, and Switzerland, on the other, may be a reflection of underlying similarities in economic policies and the operation of cost-price determining mechanisms.

TABLE 2.—Changes in price levels and import prices,<sup>1</sup> by country, 1949–58

[Percent]

	1949–58		1949–53		1953–58		1953
	Price level	Import prices	Price level	Import prices	Price level	Import prices	Import GNP
France.....	81	36	45	15	25	18	15
Austria.....	79	138	52	152	18	-7	24
Norway.....	58	34	32	35	20	-1	47
Sweden.....	54	40	32	37	17	2	28
United Kingdom.....	49	23	22	28	22	-4	20
Netherlands.....	45	20	20	20	20	-----	45
Denmark.....	42	21	23	23	15	-2	32
Italy.....	28	9	17	9	9	-----	14
Germany (Federal Republic).....	<sup>2</sup> 29	<sup>2</sup> 11	<sup>2</sup> 15	<sup>2</sup> 8	12	-2	21
Belgium.....	<sup>4</sup> 21	<sup>4</sup> 26	9	22	<sup>5</sup> 11	<sup>5</sup> 3	35
Switzerland.....	9	2	4	-1	<sup>5</sup> 5	<sup>5</sup> 3	27

<sup>1</sup> Changes in price indexes of gross national product and imports of goods and services from OEEC national accounts data.

<sup>2</sup> 1950–58.

<sup>3</sup> 1950–53.

<sup>4</sup> 1949–57.

<sup>5</sup> 1953–57.

Source: OEEC, "Statistics of National Product and Expenditure 1958 and 1947–1955" and "General Statistics."

Fragmentary evidence tending to strengthen this possibility may be gleaned from some of the available (but not very reliable) comparative statistics on unemployment, wages, and productivity. Figures on average rates of unemployment (table 3) show a sharp break between countries with comparatively high rates (7–10 percent) and those with very low rates (under 2.5 percent). And with the exception of Denmark, the high unemployment countries are those with the lowest rate of price increase, and vice versa. It may well be that the size of the gap between the unemployment percentages in the two groups is in part explained by statistical differences in the measures used, but even a 50 percent increase in the four lowest figures would not change the picture substantially.

TABLE 3.—Average annual percentage of unemployment, by country,<sup>1</sup> 1950–56

Belgium.....	10.1	Sweden <sup>4</sup> .....	2.4
Denmark <sup>2</sup> .....	9.8	Netherlands <sup>5</sup> .....	2.1
Italy <sup>3</sup> .....	9.5	United Kingdom.....	1.5
Germany.....	7.3	Norway <sup>6</sup> .....	1.2

<sup>1</sup> Differences in definition and coverage make possible only the very roughest type of comparisons.

<sup>2</sup> 1951–56.

<sup>3</sup> 1951–55.

<sup>4</sup> 1952–55.

<sup>5</sup> 1950–55.

Source: United Nations Bureau of Economic Affairs, "World Economic Survey," 1957, table 7, p. 36.

TABLE 4.—Average annual changes in money and real wages in industry,<sup>1</sup> by country, 1949-58

[Percent]

	1949-53		1953-58		1949-58	
	Money wages	Real wages <sup>2</sup>	Money wages	Real wages <sup>2</sup>	Money wages	Real wages <sup>2</sup>
France.....	10.3	3.8	8.5	3.7	9.3	3.7
Austria.....	13.7	.5	4.1	1.6	8.3	1.1
Norway.....	9.0	.7	5.8	2.6	7.2	1.8
Sweden.....	11.7	4.8	6.2	2.6	8.6	3.5
United Kingdom.....	6.2	.6	6.5	2.5	6.8	1.7
Netherlands.....	5.1	-4	8.3	5.0	6.9	3.0
Denmark.....	7.2	2.1	5.2	2.0	6.1	2.0
Italy.....	4.8	1.2	5.1	1.8	5.0	1.5
Germany (Federal Republic).....	8.3	7.9	7.0	5.0	7.6	6.3
Belgium.....	5.2	3.0	5.8	4.2	5.5	3.7
Switzerland.....	1.3	.2	2.1	.6	1.9	.4

<sup>1</sup> Indexes of average earnings, except for Austria, Belgium (1953-58), Denmark, and Germany, where average wage rate coverage is generally manufacturing but includes mining in Norway and Sweden; construction in Germany and Switzerland; mining, construction, transport, gas, and electricity in Belgium; construction, transport, and commerce in Denmark.

<sup>2</sup> Money wage index divided by cost of living index.

Source: OEEC, "General Statistics."

Turning now to comparison of wage movements (table 4), the pattern is not so clear but still vaguely perceptible in the fact that the highest rates of money wage increases over the entire period (with again one exception, Germany) have tended to be registered in those countries where prices have been increasing the fastest. Increases in real wages, however, vary substantially among countries in all three groups. But one pattern in real wage movements that should be noted is the marked disparity between the two periods 1949-53 and 1953-58 in the average rate of increase of real wages in Norway, Netherlands, the United Kingdom, and, to a lesser extent, Austria. The other countries seemed to have maintained a more stable rate of advance.

With no striking relationship apparent between comparative rates of price and money wage increases among the countries considered, it is only to be expected that in the absence of major changes in nonwage costs, productivity increases have tended to be largest in those countries with the lowest rate of price increase, and vice versa. The evidence of table 5 on productivity increases in manufacturing industries indicates that such has been the case. Aside from the exceptional performance of France where increases in both productivity and wage costs have been relatively high, the rate of productivity increase has been comparatively high and the rate of wage cost increase comparatively low in Italy, Germany, and Belgium, while the reverse is true for the other countries. A cautionary remark may perhaps be entered here, to emphasize that no inferences should be drawn from this evidence regarding the importance of stable prices to increases in productivity. The circumstances affecting productivity within a single country and between countries are so numerous and varied as to prohibit the isolation of a single dominant causal factor from simple comparisons of national averages of the sort used here. Whatever the relation between price stability and rising productivity, comparison of the rates of increase in manufacturing output with

output per man-hour reveals that the latter has probably exercised a much stronger influence. This relationship is particularly striking in the cases of Germany and Italy and stands out even more in the case of France.

TABLE 5.—Average annual changes in manufacturing output, output per man-hour and wage costs, by country, 1950-56<sup>1</sup>

[Percent]

	Output per man-hour	Wage cost per unit of output	Output
France.....	7.0	5.6	7.3
Norway.....	3.0	5.7	5.6
Sweden.....	2.8	9.8	2.8
United Kingdom.....	1.2	7.4	3.5
Netherlands.....	2.6	3.8	7.0
Denmark.....	1.5	3.0	2.2
Italy.....	8.9	-1.6	10.5
Germany (Federal Republic).....	6.7	1.5	16.5
Belgium.....	<sup>2</sup> 4.4	.....	.0

<sup>1</sup> For Denmark, 1951-55; for Netherlands, Norway, and Sweden, 1950-55.

<sup>2</sup> Output per man.

Source: United Nations, "World Economic Survey," 1957, p. 37.

What, then, may we conclude from this sketchy statistical survey of increases in prices and certain cost components in Western European countries?

As a first approximation, the pattern of movements lend some validity to a classification of countries into three groups: (1) Norway, Netherlands, Sweden, and the United Kingdom, countries with a very low rate of unemployment and comparatively high rates of increase in price levels and labor costs; (2) Belgium, Germany, Italy, and Switzerland, with appreciably higher rates of unemployment and lower rates of cost and price increases; and (3) Austria, France, and Denmark, which seem to represent in one sense or another "mixed" or "borderline" cases. This grouping corresponds in the main to the classification of countries according to characteristics of national economic policy developed in the following sections. But there is no intention of drawing the general conclusion that the pattern of wage, price, output, and employment movements are to be explained solely in terms of differences in national economic policies. These inevitably reflect differences in the nature of fundamental social and political goals, in the basic structure of economic resources, and in the structure of economic relations with other countries. The point of departure is rather that the structure and organization of economic policies and institutions, and hence wage-price setting mechanisms, tend to be adaptive to these underlying factors as well.

### III. WAGE-PRICE STABILITY AND THE COORDINATION OF ECONOMIC POLICY

There is at least one respect in which the economies of Western Europe resemble the U.S. economy—they do not readily lend themselves to analysis in terms of "pure types" of economic systems. The traditional distinction between collectivistic and individualistic or market economies is virtually meaningless in the face of the complex

mixture of free and regulated markets, public and private organizations, individual and group decisions which characterize modern economic life. Governmental action and influence at all levels of economic activity is so pervasive and takes such a variety of forms it would be a hopeless task to attempt to construct a simple overall measure to compare the relative degrees of governmental intervention among countries. Inasmuch as the problem of wage-price stability is rooted in the difficulties of coordinating the policies and behavior in both the public and private sectors, however, it is more meaningful to concentrate upon how national economic policies in Europe differ in their approaches to the problem of coordinating public and private decisions with respect to wages and prices. On this basis, one may classify countries in a rough fashion according to the extent of which government economic policy attempts to achieve through systematic administrative procedures a central coordination of public and private decisions to make them conform to and consistent with overall government policy objectives. The extremes in such a spectrum are thus not defined in terms of the size of the public sector of the economy nor the extent of direct governmental regulation of the private sector, though these may be important influences on the feasibility and effectiveness of centrally coordinated economic policy. What is important is not the exercise of governmental authority over economic decisions but the degree of direct authoritative coordination of those decisions, both public and private, relative to the indirect decentralized processes of market mechanisms and independent collective-bargaining negotiations.

It is not necessary to belabor the obvious difficulties of applying such a distinction. But with its aid, we may roughly identify three different styles of economic policy. The first style is represented by countries such as the Netherlands, Norway, Sweden, and the United Kingdom where concerted efforts have been made, with varying degrees of success, to find methods by which the government may directly influence wage-price decisions in order that they may be centrally adjusted to the demands of the total economic situation and the general lines of economic policy. The second style is perhaps best illustrated by Germany and Belgium where, instead of attempting to make wage decisions conform directly with some sort of efficiently determined wage policy, it has been generally possible to maintain conditions in the labor market such that the aggregate effect of individual settlements has not threatened national policy objectives. Finally, France, and to a lesser extent Italy, may be taken to exemplify a third style where the government exercises considerable influence over the determination of wages but the problem has been as much one of coordinating public decisions as making private actions into conformity with public policy.

#### IV. CENTRALLY COORDINATED WAGES POLICIES

Of all the countries in Western Europe, Netherlands and Norway provide the best examples of countries in which central coordination of economic policy has attained a relatively high state of development. In both the process of policy formation has been systematized by the rise of national budgeting and other quantitative techniques of national economic planning. While neither has exhibited any great

reluctance to employ direct and quantitative controls if such are deemed necessary to economic well-being and stability, there has been a trend in both countries toward the progressive dismantling of the systems of direct regulation which were in force during the period of reconstruction following World War II. Moreover, there has been no great emphasis in either the Netherlands or Norway on nationalization as a means of establishing control over the use and allocation of economic resources. Instead efforts have been directed toward methods of implementing national economic policy without either a drastic diminution of the private sector or the elimination of powerful and autonomous private economic organizations. Under these circumstances the formulation of wage-price decisions have tended to become centralized in an essentially tripartite series of negotiations against the background of the total national economic situation and the whole structure of government economic policy.

### *The Netherlands*

This process of national economic bargaining has been more formally institutionalized in the Netherlands than in Norway. Since 1945 wages have been subject to a system of comprehensive wage control. Under the terms of an extraordinary decree on labor relations of that year a board of Government conciliators was established with power to (1) fix general rules and principles of wage determination; (2) set specific wage rates; (3) approve, disapprove, or modify the terms of collective agreements (which are not valid until approved by the board); (4) extend the provisions of contracts to parties outside the bargaining unit; and (5) grant specific exceptions to established wage rates. The board, in the exercise of these powers, was made generally responsible to the Minister of Social Affairs, on the one hand, and specifically directed to obtain the advice or opinion of the Foundation of Labor—an organization of union and employer representatives set up in May 1945 to seek ways of improving labor-management relations.

In practice, the Labor Foundation—ostensibly only an advisory body—has played a key role in the formulation and execution of wage policy. The recommendations of the foundation with respect to changes in collective agreements, representing as they do the agreed position of both unions and employers in the light of the general economic situations, have only occasionally been rejected by the board of conciliators. Another consultative body—the Social and Economic Council—was created by the Industrial Organization Act of 1950 as part of a general effort to strengthen the representation of labor and management in the regulation of economic affairs. This council, made up of 15 appointees each from labor, management, and the Government, was designed to supervise a system of joint labor-management “product” and “industry” boards to be established under the terms of the act. In addition the law stipulated that the Cabinet consult with the council on all-important social and economic proposals. It was expected that the council would supplant the Foundation of Labor as the principal advisory body on wage policy, but the Foundation has continued to serve as the focus of national negotiations between labor and management and has gradually tended to act in an advisory capacity to the council.

One of the most striking features of the system of wage control as it developed was the centralization of the decisions regarding wage differentials as well as general wage changes. The board of conciliators worked out shortly after the war a wage scale based upon minimum wage rates for five regions with two skill categories 10 and 20 percent above these basic rates. Individual rates were then to be adjusted according to this scale. The scale has been progressively refined in the direction of a national system of job evaluation to provide regional, occupational, and incentive standards for wage rate determination.

During the early postwar years, Dutch wage policy was dominated by the tasks of economic reconstruction. The Foundation of Labor served successfully as an institutional mechanism for focusing the efforts of labor and management on rehabilitating the productive structure of the economy. Strikes and industrial unrest were minimized despite generally stable levels of real wage rates. Wage control was directed primarily at keeping increases in money wages generally in line with cost-of-living movements as part of a thoroughgoing economic stabilization program involving extensive controls over prices, imports, and the allocation of materials. But perhaps the most remarkable achievement of the system was the settlement in March 1951. Despite the fact that the devaluation of the guilder and the Korean war boom had pushed prices up 10 percent from their September 1950 level, the unions agreed to a wage increase of only 5 percent, voluntarily (if perhaps reluctantly) accepting a decline in real wages to aid in the Government's struggle to combat inflation and correct an adverse balance of payments.

The ending of the Korean crisis and the general easing of controls brought increasing pressure for greater flexibility in wage policy and increasing demands for improvements in real wage rates. The Social and Economic Council in 1950 recommended the adoption of a "policy of margins" whereby parties at the industry or firm level would be permitted to fix wage changes within general limits established on a national basis. And a 1954 report of the Foundation of Labor, while maintaining the desirability of continuing with centralized coordination of wage policy, proposed changes which would lessen the degree of direct governmental control over wage setting.

In January 1954 a wage increase of about 8 percent intended to offset the voluntary decrease of 1951 was granted. Within the space of a few months despite the absence of marked price rises, another general increase of 6 percent was put into effect. Further general changes were forestalled during 1955 by the negotiation of holiday and fringe benefit provisions on condition that they not raise earnings by more than 3 percent nor lead to price increases. During that year, however, the most serious conflict in the history of the foundation of labor took place when the unions took issue with the Government's view that economic prospects required a check on additional wage advances. The unions' position was that the share of labor had been decreased because of lagging wage adjustments. Collapse of the whole system of wage control was avoided by a settlement providing for lump-sum payment of 3 percent of earnings for the year 1955 and other increases to be negotiated within individual industries up to a maximum of 6 percent on condition that consequent price increases not exceed 3 percent. The approval of this settlement in March 1956 represented a substantial break in wage policy in that its "permissive"

character explicitly allowed for differential adjustments based upon circumstances in individual industries and firms and hence diverged from the principle of a national job evaluation system.

Notwithstanding, these elements of change and restiveness, central negotiation and coordination of wage policy in the Netherlands has continued. A unanimous report of the social and economic council on the problem of correcting the adverse balance of payments led to the introduction in early 1957 of another wage stabilization program which brought changes in the cost of living once more to the fore as the principal basis of wage adjustment. But there has apparently been as well a continuing trend toward increasing flexibility of wage changes when general economic conditions permit, as evidenced by a Government announcement this year authorizing wage raises where they can be financed, without price increases, out of increased productivity and profits and provided they do not lead to "objectionable results" in the labor market.

### *Norway*

Norway, like the Netherlands, relied to a great extent upon extensive and detailed direct government regulation of the economy to meet the immediate problems of reconstruction after the war. A basic foundation of the whole reconstruction effort was a stabilization program worked out with the central labor and employer federations to prevent industrial conflict and excessive money wage increases while the country's economic resources were being strained to replace the capital losses of the war and to reestablish a viable foreign trade position. But even in these early postwar years, the coordination of wage settlements with general economic policy was less formally organized than in the Netherlands. While wage demands were generally subject to compulsory arbitration, the arbitration tribunals or wage boards were not formally bound by any government policy directives. Moreover, the Norwegian trade unions maintained their traditional opposition to governmental wage-fixing. In 1949, compulsory arbitration was restricted to cases where wage demands had not received the approval of the central federations and in 1952 was abandoned (except for particular cases requiring special parliamentary action). In effect national wage policy in Norway has been left to be determined in central negotiations between the trade union federation and the employers' association. Such a procedure was feasible only because of the highly centralized organization of both groups which made the national settlements controlling for the individual agreements between their constituent members.

The legally autonomous status of these central negotiations, however, has not meant the absence of governmental influence over the terms of general wage settlement. The close association between the trade unions and the Norwegian Labor Party (which has maintained a parliamentary majority since 1946) has provided both the motivation and the vehicle for the union leaders to formulate their wage demands in the light of general economic policies and conditions. Thus the Government has been a constant, if somewhat circumspect, party to national wage bargaining even though it has sought to limit the extent of its interventions.

Until rising import prices, following the exchange depreciation in the fall of 1949 and the outbreak of the Korean war, made inevitable

an upward adjustment of internal prices and wages, the restraint of union wage policy enabled the Government to maintain a relatively successful policy of suppressed inflation. Despite the high liquidity of the economy and the banking system and a generally excessive level of monetary demand, the system of price controls, subsidies, and quantitative regulations worked effectively enough to accomplish the objectives of an ambitious investment program while the cost-of-living index was kept virtually unchanged from its 1946 level. Even so the controls were not effective enough to prevent inflationary pressures from producing gradual increases in prices outside the cost-of-living index nor to keep wages from drifting upward through changes in rates and earnings outside of the contractual agreements.

During the upward movements in prices and wages during 1950-51 the policy of union wage restraint continued (but only through the process of governmentally arbitrated settlements) with the result that real wages fell for the first time since the end of the war. The relaxation of controls and the lessening of inflationary pressure that came with the waning of the Korean boom was accompanied, as in the Netherlands, with efforts to introduce greater flexibility into the wage negotiations. The trade union federation attempted unsuccessfully in 1952 and 1954 to permit negotiations on an industrywide basis without a general wage settlement. The 1952 settlements did, however, break new ground in differentiating, for the first time since the war, between skill categories with respect to wage adjustments, while the 1954 negotiations were marked by the absence of general wage adjustments, contract changes being confined to fringe benefits payments and separately negotiated wage adjustments for workers on time rates.

By 1956, the movement toward greater decentralization had progressed to the point where the Government, despite a concerted effort, was unable to obtain a general agreement on wages in coordination with its negotiations with the farm organizations on agricultural prices and subsidies. The contracts negotiated by the separate national unions and employer associations although varying considerably in their terms on the average did not, however, exceed by much the general increase which the Government had indicated as acceptable. But major strikes occurred in the pulp and paper and the building industries—the first strikes since the end of the war in which emergency arbitration was not invoked—and the tendency toward rising prices after the settlement forced a partial reversal of the Government's previously announced policy of reducing subsidies in order to avoid a cost-of-living adjustment under the index provisions of the contracts.

In 1958, negotiations between the two central federations were successful in reaching agreement on a reduction in the workweek from 48 to 45 hours to be effective March 1, 1959. Wage increases were limited to the amounts necessary to maintain weekly earnings. In the background of this settlement, however, was prospective legislation which would have reduced the legal workweek in any event although at a later date. When rising prices during the first half of 1958 brought a reopening of wage negotiations under the cost-of-living provisions of the contracts, the unions and employers were unable to reach a settlement or to agree on voluntary arbitration. As a result the Government invoked emergency compulsory arbitration procedures

and placed the issue in the hands of a public wage board. The board awarded increases averaging about 3 percent, this amounted to something less than full compensation for the rise in the cost of living in terms of wage rates, as distinct from earnings.

In the overall view, the formulation and administration of Norwegian wage policy has been a complex mixture of central and separate negotiations, direct and indirect governmental participation, voluntary agreements and compulsory arbitration. Yet, by and large, the efforts to coordinate wage decisions with national economic policy have been reasonably, if not completely, successful.

### *Sweden*

Whereas central coordination of wage policy in the Netherlands and Norway has been consistently, if imperfectly, pursued over the years since the war, the efforts in the same direction in Sweden and the United Kingdom have been only temporarily and intermittently effective. During the period 1948-50 the Governments in both countries sought to achieve price stabilization through programs in which the self-imposed wage restraint of the trade unions was an essential element, but with only partial and short-lived effects.

National wage bargaining in Sweden has been complicated by the existence of two federations of national unions. The largest of these—the Confederation of Swedish Trade Unions (LO)—is made up of 44 affiliated national unions whose membership of 1,400,000 comprises almost the whole of the manual labor force. The Central Organization of White Collar Workers (TCO) is considerably smaller (350,000 members in 42 affiliated unions) but represents about 75 percent of all salaried employees. As in Norway, both the principal labor and employer federations are highly centralized organizations, able, within limits, to see to it that the terms of any centrally regulated settlements are incorporated into the contracts between their constituent organizations. However, the existence of the separate organization for white-collar workers (which itself is less centralized) and the fact that the national unions in Sweden are somewhat stronger organizations with a tradition of greater independence, has made the task of achieving unity in union policy and action somewhat more difficult and uncertain.

Within the Swedish LO, however, the principal worker "solidarity" has been a strong influence (again as in Norway) favoring coordination of union policy. The political affiliation of the LO with the Swedish Social Democratic Party is also a close one. But that party, although it has controlled the Government since 1932 either alone or as a dominant member of a coalition, has never attained an absolute parliamentary majority. The consequent necessity for political compromise is perhaps part of the reason for the lesser emphasis placed upon national economic budgeting as a means of obtaining a high degree of coordination in national economic policy. With a greater decentralization of power in collective-bargaining institutions and not so much weight placed upon formal mechanisms of economic planning, it is not surprising that Swedish wage policy has lacked the degree of continuity discernible in the Netherlands and Norway.

The first postwar experiment with a national policy of "wage restraint" in Sweden was begun in 1948 when the Government appealed to both unions and management for a halt to wage increases and

coupled the appeal with regulations limiting dividends and an increase on taxes on company profits. When the trade-union federation was unable to withstand the pressure of the national unions for further wage increases, the Government responded with increases in excise taxes which, together with a continuing rise in prices, largely nullified the wage raises in real terms. In the following year the central federation was more successful in obtaining extension of contracts with only negligible wage rate changes and agreement on a policy of further extension into 1950 was reached, with the Government undertaking to offset the effects of the September 1949 devaluation through increased subsidies. However, under the impact of the Korean war boom, and also because of the discrepancies in the wage structure resulting from the upward drift of earnings during the period of the wage rate freeze, the Government and the unions abandoned the policy of wage restraint. The resulting wage explosion saw both wages and prices rise by over 20 percent by the end of 1952. In 1952, a national settlement, centrally negotiated between the trade-union federation and the employers association, attempted to limit wage increases to 8 to 10 percent but by the end of the year contractual agreements had increased wage rates by about 12 percent while the wage drift had added some 6 percent to earnings.

The policy of wage restraint was reinstated during 1953-54 but without attempting a general freeze on wage rate revisions and supported by an easing of inflationary pressure. The quickening of demand during 1954 and the continuing effects of the wage drift created the circumstances for another wage explosion of somewhat smaller dimensions. Separately negotiated increases in 1955 were high (averaging over 8 percent) but somewhat unevenly distributed. Centralized bargaining began again in 1956 with a settlement between both union federations and the employers association providing for an average increase of around 4 percent. The pattern of centrally regulated agreements has been continued in 1957 (when the union and employer federations recommended a contract duration of 2 years) and 1959 and rate increases have been moderate—amounting to about 2 to 3 percent a year. The slackening of strain in the labor market and reasonably stable prices, however, has probably been a greater moderating influence than trade-union restraint.

#### *United Kingdom*

Circumstances in the United Kingdom have been even less favorable to the development of any sort of formal coordination between a national wage policy and general economic policy than in Sweden. The British experience, therefore, is perhaps best considered as an illustration of governmental failure to find any direct method of coordinating collectively bargained wage settlements with its own policy objectives and decisions despite much discussion of the need and one actual attempt to implement a national wage policy.

Collective bargaining in the United Kingdom lacks the centralized structure provided by the Scandinavian union and employer federations and the Netherlands Foundation of Labor. While the general council of the Trade Union Congress has considerably greater influence in wage negotiations than the AFL-CIO does in this country, the national unions are the centers of trade-union power in bargaining. The Bristol Employers' Confederation likewise lacks the cen-

tralized authority over its members which characterizes the Norwegian and Swedish employer federations and its role in wage negotiations has been negligible.

The British experiment with a national wage policy of "voluntary wage restraint" was inaugurated in 1948 with the promulgation by the Labor government of a policy statement on personal incomes, costs, and prices (Cmd. 7321, HMSO, 1948). In this white paper the Government took the position that it should not institute direct controls over incomes except through taxes, nor attempt a general "freeze" of all wage rates. But it enjoined the parties to collective bargaining not to depart from the terms of collective agreements, expressed the opinion that there was no justification for a general increase in money incomes under the then existing conditions, and stated that every demand for a wage increase had to be considered on its "national merits" (which were left undefined). In contrast to Norwegian and Swedish stabilization efforts during the same period, the British Labor government was unable to get the trade unions to participate in the development of a national wage policy. The 1948 white paper was issued without prior consultation with the union leadership. Nevertheless, after reserving their position by listing a broad set of conditions which they felt would justify wage increases, the unions undertook to support the Government in its efforts to limit wage movements.

The policy of "wage restraint" did serve to restrict the upward movement of wages and prices in the succeeding 2 years. But, like the "wage drift" in the Scandinavian countries, the haphazard influences of increases in earnings not associated with contractual changes led to increased tensions among the unions and greater dissatisfaction with a policy that had not had wholehearted support from the beginning. After the devaluation of sterling in the fall of 1949, and despite the efforts of general council, the 1950 Trade Union Congress voted against any continuation of a "wage restraint" policy. It is probable that, even had TUC made the contrary decision, the inflationary impact of increased defense expenditures and rising import prices after the outbreak of the Korean war would have destroyed the possibility of any further reliance on voluntary restraint to control wage levels.

Following the vigorous wage and price increases of 1950-51 and the 1951 election of a Conservative majority in Parliament, Government policy to achieve wage-price stability entered a new phase. The Conservative government first attempted through the National Joint Advisory Council—an advisory body to the Labour Ministry composed of representatives from the TUC, the British Employers' Confederation, and the nationalized industries—to obtain union cooperation in devising means for keeping wage movements in line with productivity changes. The TUC, however, rejected the Government's proposal. Since then there have been occasional governmental appeals for the exercise of union restraint coupled with exploratory moves in the direction of working out arrangements which would make possible a greater degree of coordination between wage-fixing and general economic policies. All of these have met with trade-union opposition and achieved little significant result. Upward pressure on wages declined somewhat after the end of the Korean crisis and the easing of internal demand resulting from the disinflationary measures introduced by the

Conservative government, but the annual rate of money-wage increase has remained high—averaging over 6 percent a year since 1953.

One particularly interesting feature of British experience during this period has been the series of events which led to some feeling among the trade unions that the Government was attempting to implement a national wage policy via influence on the wage actions of various statutory bodies. The evidence that a “back-door approach” to wage policy (as Prof. Allan Flanders has labeled it) is only indirect and inconclusive. The structure of Government intervention in fixing conditions of employment in the United Kingdom provides three major avenues for possible exploitation of such an approach. First, in certain industries, lacking private collective bargaining arrangements, wages and employment conditions are set by tripartite wages councils. The recommendations of these councils have legal force upon being confirmed by the Minister of Labour, whose authority is confirmed to approval of the recommendations, or referring them back to the councils for reconsideration. The later course has been taken only rarely, but in 1952 the Labour Ministry sent the recommendations of some dozen wages councils back for reconsideration in light of the need for keeping advances in wage incomes in step with production. Amid the vigorous protests by the unions against the use of such a method of moderating the rate of wage advance, the councils’ reports were resubmitted without change and duly confirmed. Continuing complaints, however, forced the Labour Minister in 1954 to assure the general council of the TUC that the average delay between the receipt of a council recommendation and the issuance of Government confirmation had been reduced to a little over a week.

Public arbitration tribunals constituted a second possible avenue for the exercise of governmental influence over wage setting. Voluntary arbitration of disputes over changes in wage provisions of collective contracts is much more common in the United Kingdom than in the United States, and legislation makes available Government arbitration machinery to those industries where private arbitration arrangements have not been instituted. In addition, with the abandonment of compulsory arbitration in 1951 there was established an Industrial Disputes Tribunal to which the Minister of Labour could refer for arbitration disputes over the terms of national agreements. Increased employer resistance to wage claims during 1952 and 1953 and a substantial increase in the number of disputes going to arbitration coincided with the rejection of a number of important wage claims by arbitration. The similarity and small size of awards by the Industrial Disputes Tribunal in 1953 brought accusations by the unions that it was attempting to follow a wage policy. However, in the opinion of one informed observer, the 1953-54 pattern of arbitration awards was simply the result of the normal tendency for arbitration tribunals to follow trends established in voluntary settlements in a period when general economic conditions militated against large wage increases.<sup>2</sup>

It was in the third area of Government intervention in wage fixing—the determination of wages and salaries of Government employees and workers in nationalized industries—that some of the most acute prob-

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<sup>2</sup> B. C. Roberts, “Trade Union Behavior and Wage Determination in Great Britain,” in J. T. Dunlop (ed.), “The Theory of Wage Determination” (London, 1957), pp. 119-120.

lems of Government wage policy arose. While the nationalized industries are supposed to be more or less autonomous with respect to wage policies, it proved impossible for the Government to avoid responsibility for and participation in wage decisions in those industries. The railway workers were perhaps the prime movers in forcing the issue. Having already forced ministerial action on their wage demands in 1949, the railway unions in 1951 succeeded in forcing the Government to grant a 7.5 percent increase instead of the 5 percent which had been awarded by the special court of inquiry convened to settle the dispute. Again in 1953 the Ministry of Labor intervened to get the transport commission to raise its offer to the railway employees in order to avoid a strike. Upon the pressing of additional demands by the railway unions and a court of inquiry ruling in 1955 that the transport commission could not claim large prospective deficits in operating the railroads as a defense against wage claims, it is not surprising that the railway executive has shown weakened resistance to wage demands in the years since. The wage settlements on the railroads in setting a pattern for others have represented a perverse type of Government wage policy contributing to, rather than restraining, the upward pressures on wage rates.

With respect to other Government employees as well, there has been no concerted effort to introduce direct fixing of wages as a focal point of a national wage policy. The disapproval of a recommended wage increase for employees of the national health service in the fall of 1957 (apparently intended to set a "good example" after ministerial statements to Parliament emphasizing the necessity for stage stability) was successful primarily in arousing resentment and irritation.

#### *Conditions for effective national wage policy*

Against the background of these cursory individual sketches of experience with national wage policies in four different economies, certain common features in those countries may be used to formulate some tentative general conclusions about the conditions necessary for effective governmental intervention to control the general level of wages. The most obvious of these conclusions is that a centrally coordinated wage policy at best, can only be a partially effective means of controlling inflation under conditions of generally excessive aggregate demand. Even in the Netherlands and Norway national wage policy cannot be said to have been successful in accomplishing more than a moderation or temporary postponement of wage-price movements in the presence of demand inflation—which is not to say that such delaying processes have been unimportant or without crucial significance at times. In this, European developments simply confirm what has been our own experience with wage stabilization efforts during World War II and the Korean war.

Direct evidence of the limitations of general wage controls is furnished by the phenomena of "wage drift"—the tendency of earnings to increase in excess of changes in contractual wage rates. Statistics for Norway and Sweden (table 6) indicate that changes outside collective agreements have consistently added at least 2 percent a year to average earnings since 1948. In the Netherlands and United Kingdom there is evidence in the spread between the indexes of industrial wage rates and earnings that the same phenomenon has been present though perhaps less quantitatively important. To a certain extent

"wage drift" constitutes a measure of flexibility in a system of wage controls that might otherwise prove too rigid. But, as we have already had occasion to observe, the relatively haphazard occupational and industrial distribution of wage drifting over a period of time, generates tensions within the wage structure which increase the pressure for adjustments in basic rates. Although it is fairly clear that wage drifting is closely connected with shortages in the labor market, it is still an open question as to how sensitive the wage drift may be to reductions in labor market demand. If the process continues to add only 1 percent a year to the wage bill even under conditions approximating full-employment equilibrium, it represents a rather important constraint on the formulation of any national wage policy.

TABLE 6.—*Wage drift in Norwegian and Swedish Industries, 1948-56*

[Percent]

	Norway		Sweden	
	Contractual rate change	Wage drift <sup>1</sup>	Contractual rate change	Wage drift <sup>1</sup>
1948.....	2.4	2.8	4.5	3.6
1949.....	1.7	1.7	.2	2.5
1950.....	5.6	5.0	0	3.9
1951.....	10.7	3.1	14.3	5.5
1952.....	4.2	2.7	2.6	5.9
1953.....	0	3.7	1.1	2.5
1954.....	2.7	3.5	1.5	2.9
1955.....	0	5.2	4.3	4.0
1956.....	.....	.....	.5	3.5

<sup>1</sup> Percentage increase in average earnings not accounted for by contract rate changes. Swedish figures exclude influence of changes in overtime.

Source: Lars Aarvig, *Lønnsutvikling og lønnspolitikk i Norge etter krigen* (Oslo, 1957), p. 120. Gösta Rehn, "Swedish Wages and Wage Policies" in *The Annals of the American Academy of Political and Social Sciences*, March 1957, p. 100.

The dependence of an effective national wage policy on the control of aggregate demand is merely one aspect of the more fundamental condition that governmental efforts to exercise general control over wages must be integrated with the overall economic policy. Baldly stated, coordinating private wage decisions with public policy objectives is bound to be difficult (or impossible) unless those objectives and the measures proposed for their realization do not make up a reasonably consistent program. An essential element of the national economic bargaining of the kind which has surrounded the formulation of wage policy decisions in the four countries surveyed above is the demonstrated capacity of the Government to carry out its part of the bargain. This is trivially obvious with respect to control over the cost of living since trade unions by their very nature are unable to cooperate for very long in reducing real wages. But the principle runs deeper. For what stands out particularly in the cases of the Netherlands and Norway, but is visible as well in Sweden and the United Kingdom, is that "responsible" trade union behavior with respect to the general wage level requires a situation where the relations between national interests and the interests of the workers can be defined in concrete terms and even given quantitative significance.

In the postwar period the objectives of first reconstruction and then rearmament have for short periods been important enough to serve as a dominant objective about which national wage policies could be

implemented. But the examples of Norway and the Netherlands indicates that where foreign trade is extremely important to an economy the balance of payments plays a prime role in providing a clear policy focus. In those countries the potential impact upon employment and real income of difficulties in the external economy is direct and large enough to be a significant influence on wage decisions at all levels. In fact, if one were to seek out the single most important reason for the continuing efforts to achieve centralized control over wages in Norway and the Netherlands it would probably be found in the desire to prevent internal economic developments from interfering with the ability to trade in world markets and conversely, to insulate the internal economy from the deleterious effects of unstable movements in external prices and demand.

Finally, it is almost tautological that the reconciliation between national and parochial interests which is implicit in any successful wage policy is possible only with a relatively high degree of social and political stability. Unless the various economic groups in the Nation are satisfied that their particular interests are adequately represented in the governmental policies being invoked in the name of the public interest, disruptive organized political and economic action is certain to result in a democratic country. The relative success of national wage policy in Norway must in large part be attributed to the confidence of the trade unions in the social and political objectives of the labor government in that country. In this sense, the whole panoply of economic measures, such as permanent price control authority, dividend limitations, price subsidies, interest rate regulation, etc., available to the Norwegian Government has formed an essential part of wage policy in Norway. And the fundamental disagreement between the trade unions and the conservative government in Britain over basic social goals has been an effective bar to cooperation on any national wage policy.

But effective national wage policy is not just a matter of achieving successful coordination of national policy decisions on the part of the major organized interests in the economy. It must depend as well upon the effectiveness with which the major economic organizations themselves are able to achieve internal coordination of their own policies. The centralization of both trade union and employer organization in Scandinavia and in the Netherlands (through the Foundation of Labor) has been a principal factor making national wage policy feasible in those countries. That it is not simply the formal concentration of organizational authority which is important in this connection may be inferred from the way the policy of the national federations has had to adjust to the exigencies of internal organizational pressures. The major source of the corrosive influence of the wage drift on any union policy of wage restraint is, in fact, the intra-union conflicts it engenders over the appropriate distribution of the wage bill. And it is significant that the improvement in economic conditions in both the Netherlands and Norway has produced movements in the direction of greater independence of action by the affiliates of the central labor and employer federations.

A related factor which perhaps merits separate mention as a condition contributing to the practicability of national wage policy in all the four countries considered so far has been the absence of serious conflicts within and between union and employer organizations over

such organizational and nonwage issues as union jurisdiction, working rules, job standards, work assignments and the like. This has been both a cause and effect of centralized bargaining in that such issues are likely to defy resolution in the context of broad national agreements affecting a wide variety of local work situations. Thus, the concentration on wage and hour issues characteristic of Western European collective bargaining, on the one hand, may have had the effect of intensifying the problem of upward pressure on the wage level by failing to exploit fully possibilities for settlement with nonwage benefits less inflationary in terms of costs and incomes. On the other hand, it has been precisely this concentration on economic issues which has made possible the type of centralized bargaining in which considerations of national policy can be expected to play a role.

### V. WAGE POLICY BY INDIRECTION AND DEFAULT

From some points of view there is justification for the judgment that postwar economic developments in Germany and France cannot provide much insight into the policy problems posed by any potential threat to economic stability of upward pressures on costs in a full employment economy. For, as one observer has concluded,<sup>3</sup> Germany has not yet been faced with the problem of maintaining a stable price level with full employment. In France, on the other hand, the dominant problems have been connected with establishing monetary and financial stability in order to combat demand inflation rather than the control of costs in a situation approaching monetary equilibrium. Some features of economic policy in general and Government interventions in wage-price setting in particular in the two countries, however, may provide instructive illustrations of some of the implications of different policy approaches.

#### *Germany*

Postwar economic policy in Germany is often contrasted with that in the countries we have been considering because of its avowed effort to maintain economic stability and growth through reliance on free markets and traditional instruments of monetary and fiscal policy.<sup>4</sup> The performance of the German economy since 1948 in terms of the increases in output, employment, productivity and real incomes, the relatively low rate of price increases, and the achievement of a strong foreign trade position has been impressive, to say the least. But it is not easy to evaluate the precise role played by the structure and policies of labor and management organizations in contributing to that performance.

In general terms two main factors appear to have been of dominant importance in preventing upward pressure on costs: (1) Rapid increases in productivity and (2) large increases in the labor supply. The first has permitted money wages to increase at an average rate of over 7.5 percent annually during the past 10 years while labor costs and prices were rising by only around 2 or 3 percent. The second has helped, in combination with restrictive monetary policies, to avoid any serious generalized labor shortage. Despite the vigor-

<sup>3</sup> B. C. Roberts, "National Wages Policy in Wage and Peace" (London, 1958), p. 144.

<sup>4</sup> See, for example, Egon Sohmen, "Competition and Growth: The Lesson of West Germany," forthcoming in *American Economic Review*, December 1959.

ous rate of economic expansion unemployment has been higher in Germany than in most of the other Western European countries during the same period. The decline in both the rate of productivity increase and flow of labor from Eastern Europe with the consequent reduction in the growth of the labor force may bring forth the problems of wage-price stability in a full employment economy in the form familiar in other countries of Europe. For it is not clear that the monetary and fiscal measures which have been successfully employed in Germany to control inflationary pressures in a period of extraordinary productivity and labor force increases will work equally effectively under more normal conditions when the issue of wage stability and trade union action are likely to become more acute.

The German trade unions, in the years since 1948, have not pressed their wage claims with a great deal of vigor. But this moderation is not attributable to any sort of national policy of wage restraint. The weakness of German unions, despite their membership and centralized organization, has been advanced as one reason for the lack of more vigorous wage action. This weakness shows up mainly at the plant level. Plant organization is lacking and the handling of grievances is performed by independent works councils for which worker representatives are chosen in local elections by all the workers. This lack of local organization is connected with the general union policy favoring uniform treatment of all employers which has led them to support the practice of legal extension of contracts to parties not involved in the contract negotiations.

Under the provisions of the law on extension of contracts, the terms of any agreement between a union and an employers' association which covers more than half of the employees in an industry and area may be applied by Government decree to all employers and workers.

Through this law—

as Clark Kerr has put it—

a minority of employers in conjunction with a union representing a minority of the workers, can, in effect, legislate for all employers and all workers. It turns employers' associations and unions into private governments, with the enforcing power of public government behind them.<sup>5</sup>

The result has been to make the organization of employers almost as important to the unions as the organization of workers since the application of the law is not dependent upon the number of union workers in the bargaining unit. This becomes significant in wage bargaining since it accentuates union concern for the effects of industrywide wage agreements on the maintenance of employer membership in the employers association in general, and the position of marginal firms in particular. Pressure for higher wages could conceivably result in withdrawals, even by profitable firms, from the employers' association sufficient in magnitude to reduce the employment coverage below the 50 percent necessary for legal contract extension. Wage settlements which threatened the marginal firms in the industry on the other hand would entail not only a loss of jobs and members but a possible reduction in contract coverage as

<sup>5</sup> Clark Kerr, "Collective Bargaining in Postwar Germany," in A. Sturmtal (ed.), "Contemporary Collective Bargaining in Seven Countries" (Ithaca, N.Y., 1957), p. 198.

well. It is not difficult to see why this system has been described as "admirably suited to keeping contractual wage rates at low levels."<sup>6</sup>

Nevertheless, it would be premature to conclude that the structure of bargaining institutions and the effects on union and management policies of contract extension would have sufficed to keep wage demands moderate if the growth in productivity and real wages had been less and the level of employment higher. The policy pronouncements of the unions indicate that their "responsible" behavior has rested on their desire not to interfere with economic reconstruction and growth. But it might be dangerous to underestimate the importance that the relative rapid growth in productivity and real wages has had upon trade union policy. It remains to be seen whether the tendencies toward greater income inequality which have accompanied the tax and monetary policies adopted by the Government as a means of encouraging a high rate of saving will provoke more vigorous action by the unions both in wage bargaining and politically if the possibilities for real wage advances decline.

### *France*

Although the new De Gaulle regime may basically alter the situation, postwar France represents a case study of "a weak government, but ubiquitous in economic life."<sup>7</sup> Political instability, extensive governmental intervention, a divided labor movement with the largest segment Communist dominated, and generally inflationary monetary and fiscal conditions is not a combination likely to be conducive to wage-price stability nor to provide examples of effective techniques for achieving such stability.

After a period of direct government control over wages following World War II, the French Government attempted to establish free collective bargaining under a 1950 law intended to place wage determination in the hands of unions and employers. In practice, however, governmental decisions on wages remained the dominant element in wage fixing. Partly this has resulted from the key role played by the setting of legal minimum wages. Contractual wages have been so close to the legal minimum, the unions have been so weak in collective bargaining, and the practice by employers of looking to the Government for leadership in wage matters so widespread that changes in minimum wages have been generally reflected in the movement of the whole wage structure. In addition, the fact that over a fourth of the wage earners in France are employed in government service and the nationalized industries has intensified the influence of government action on wage decisions throughout the economy. Finally, the level of social insurance benefits and family allowances (which amount to about a third of total remuneration of workers) is set by the government.

The centralization of general wage movements through government action, however, has been accompanied by "an anarchy of actual wage determination in the plant."<sup>8</sup> The weakness of the unions has left wages to a large extent subject to managerial fiat. Collective agreements, typically negotiated with employers associations on a district, regional, or national basis, frequently are far from detailed in their

<sup>6</sup> Kerr, *op. cit.*, p. 204.

<sup>7</sup> Val Lorwin, "Collective Bargaining in Postwar France," in "The Annals of the American Academy of Political and Social Science," March 1957, p. 70.

<sup>8</sup> Lorwin, *op. cit.*, p. 66.

provisions. Even when area or industry agreements contain a specification of wage rates these are minimum rates usually set low enough to make effective rates a matter of negotiation, or often unilateral management decision at the plant level.

Despite the apparent "anarchy" and anomalies of the French system of industrial relations and wage determination, the fact remains that substantial increases in productivity and real wages have been registered in the years since 1950. With the fading of the effects of the Korean war, price increases were generally moderate and real gross national product per capita increased at an annual rate of around 4.5 percent until 1957. The paradoxes of the French economy, if they do nothing else, should serve to instill a decent measure of humility in those brash enough to make easy generalizations from national comparisons.

## VI. CONCLUSIONS

The brevity and incompleteness of this survey of wage-price problems in Western Europe permits only the most tentative of conclusions. And perhaps the most supportable of these is the generally negative result that it is highly questionable whether Western European approaches to the problem of wage-price stability would have much applicability in U.S. conditions and circumstances.

### THE PRACTICABILITY OF A NATIONAL WAGE POLICY

The greatest amount of attention has been devoted to those countries in which the development and implementations of a national wage policy has played some role in government efforts to maintain wage-price stability. This choice of emphasis has been made partly because of the frequency with which the necessity for government action along similar lines has entered discussions of wage-price stability in this country. Partly, however, it reflects the judgment that the strength of organized labor and collective bargaining institutions in Scandinavia, United Kingdom, and the Netherlands, makes their experience more relevant to U.S. problems. In any event, experience with national wage policies in those countries tend to the conclusion that movements in this direction are not likely to be successful, except perhaps temporarily during periods of grave national crisis. Comparison of the conditions found to be controlling factors in determining the possibility and effectiveness of national wage policies with conditions in the U.S. economy leaves little room for any other conclusion.

Primary among these conditions was the requirement that effective national wage policy had to be part of a coordinated effort to achieve a clearly defined national objective in which the relation between national interests and trade union wage action may be given unambiguous and measurable significance. Reconstruction and defense emergencies have occasionally provided the clearcut national policy focus about which national wage policies can be formulated, but only in Norway and the Netherlands, where dependence on foreign trade makes the balance of payments particularly crucial to national economic welfare, have national wage policies continued to be an important factor in economic developments. And even in these countries centralized control over the general wage movements has tended

to be eroded over time with the achievement of stronger positions in their external economic relations. In the absence of acute national defense emergency, no comparable policy focus exists in this country.

It follows that the second condition for effective national wage policy—a high degree of central coordination of economic policies and actions within the Government itself—does not now exist and is not likely to develop in the United States. As we have seen, the systems of detailed economic planning and national economic budgeting in the Netherlands and Norway have been essential elements in the process of formulating national wage policy. Without them it is difficult to establish the clear relation between public interest and private action, and to achieve the level of consistency between Government decisions in various areas, necessary to maintain the “good faith” position of the Government in national economic bargaining. Our system of government with divided congressional, executive, and monetary responsibilities does not lend itself to centrally coordinated decisions and comprehensive economic planning even if such were desirable.

Labor and management “responsibility” in conforming to a national wage policy can hardly be expected, unless matched by equally “responsible” government behavior in coordinating its own actions.

With respect to collective bargaining institutions, it hardly needs emphasis that trade unions in the United States lack the centralized organization and tradition of worker “solidarity” that has made peacetime national wage policies feasible in Europe. Moreover, union policies in this country do not exhibit a concentration on wage issues to the extent European unions do. Work rules, job standards, locally negotiated fringe benefits, etc., are important or even dominating factors in collective bargaining. The possibility of “trade-offs” between these and other items such as union security are bound to complicate the inherently difficult task of judging the conformity of any given agreement to a national wage policy, to say nothing of the fact that introduction of such conformity as an issue is almost certain to aggravate the problem of reaching agreements.

Management organization in the United States also differs substantially from those European patterns which are favorable to implementation of a national wage policy. The lack of powerful and centralized employer associations in itself is probably sufficient to frustrate efforts toward a national wage policy. This is perhaps most clearly seen in connection with problems of the “wage drift.” The upward “drifting” of wages outside of contractual agreement is bound to destroy the effectiveness of any control over the general wage level sought by imposing labor and management responsibility to a national wage policy. In the countries that we have considered, it would appear that a major factor in limiting the corrosive influence of “wage drift” has been the discipline exercised by employer associations over their member firms in the matter of wage changes. Without such discipline, competitive pressures would tend to bring upward

wage movements in response to the labor shortages which are almost certain to arise in particular areas and occupations at high employment levels. Neither management tradition nor organization in this country manifest the unity of purpose and concern for marginal firms which would be necessary to eliminate the effect of these competitive forces.

#### OTHER ALTERNATIVES

If effective implementation of a national wage policy as a means of assuring wage-price stability is not feasible in this country, what light does European experience throw on the possibilities of alternative courses of action in the form of direct government intervention in wage and price setting not coordinated with a general wage policy. Here it becomes even more difficult to derive any general conclusion. But it perhaps is fair to say that the experience of Western European countries does not provide much evidence to indicate that much reliance can be placed on specific government interventions as an anti-inflationary measure.

The role of the Government in Britain in determining wages in nationalized industries may be cited as having some relevance in this regard. While certainly not conclusive, the problems that arose in the British railroads and their handling do not augur well for government attempts to exercise a general moderating influence over wage increases via action in particular sectors. In a sense, the British problem with wage setting on the railways simply illustrate the difficulties (familiar enough from our own experience with wartime wage stabilization) of motivating specific action in a particular situation by use of general objectives which have not been given clear definition as part of a coordinated program. The same problem is illustrated in a different manner in the development in the Netherlands of a system which attempts to achieve national coordination of wage structure in order to protect centralized wage policy from the tensions of relative wage movements. The difficulties encountered in that attempt, involving conflicts between adherence to national criteria and maintenance of sufficient flexibility to permit local adjustments to economic circumstances, have their counterpart in the likelihood of conflict between the demands of the particular circumstances in a given sector and specific government action based on general policy considerations.

French and German experience contain little if anything which might indicate direct government interventions in wage setting in this country might be effective in helping to control inflation. France probably provides better examples of the inflationary problems created by extensive, uncoordinated government involvement in wage determination than it does of problems solved. And the unique features of German experience and the crucial difference between United States and German collective bargaining structures make developments in Germany less useful in providing "tests" of particular techniques of direct intervention to control wages and prices.

## FINAL REMARKS

The generally negative conclusions which have been reached in this study should not be interpreted as implying that European experience shows "nothing can be done" about the problem of wage-price stability in a full-employment economy. The "lesson" of European economic experience is the extremely simple one that government action and economic policy here will have to depend primarily on analysis of the structure and operation of private and public organizations and institutions in this country. The study of European wage-price systems may be of some help in enlarging our perspective and obtaining greater understanding of our own economic institutions. But in general, systems of industrial relations and wage determination tend to be so adapted to the social and economic environment in which they have developed that they do not take well to transplanting—in whole or in part—without substantial mutation.

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# APPENDIX

## COMPARATIVE NOTES ON WAGE-PRICE SETTING IN WESTERN EUROPE

(By Donald R. Snodgrass,<sup>1</sup> Yale University)

### AUSTRIA

#### *Unions*

At the end of 1955, about two-thirds of all wage and salary earners were organized into unions (1.4 million in 2.2 million). There are 16 national unions, which fall into 3 groups: (1) Unions of manual workers (58 percent of total union membership in 1955), (2) the large union of salaried employees in the private sector (13 percent), and (3) the unions of public and municipal employees (29 percent). All national unions belong to the Austrian Trade Union Federation (OGB), a highly centralized organization which provides a common financial base and joint departments of research, education, public relations, etc. All activities of the individual unions are governed by general principles laid down by the OGB and they may be required to consult with the OGB if their actions affect the General interests of labor.

The Act for the Protection of Freedom of Work and Assembly of 1930 prohibits the union shop and the use of force or intimidation to gain union members.

The unions have no party affiliation and the three leading parties—Socialist Party, People's Party (a business-agricultural group), and Communist Party—are all represented on the main bodies of the OGB. The OGB has, however, a definite policy on a wide range of social matters.

Besides the OGB and its constituent unions, there is a chamber of labor in each Province. These are official bodies, membership in which is compulsory for wage earners below the executive level. They are legally charged with furthering the interests of wage earners; they examine proposed legislation and make recommendations and do research on housing, nutrition, public health, prices, etc. A one-half of 1 percent tax supports them. Another of their functions is to cooperate with the unions in collective bargaining. Separate agricultural labor chambers exist to represent agricultural and forestry workers.

#### *Employers' associations*

There are several voluntary employers' associations, the most important of which is the Austrian Industrial Employers' Association (VOI). The VOI has some 3,000 members representing employment of about 300,000. There are some 20 voluntary associations limited to particular industries which are empowered to conclude collective agreements.

Corresponding to the chambers of labor are chambers of industry and commerce at the Federal level and by Provinces. The provincial chambers are divided into six sections: crafts, industry, commerce, banking and insurance, transportation, and tourism. Chambers are legal corporations, membership in which is compulsory; they can fine members and make collective agreements. They are often consulted by Government on policy matters.

#### *Collective bargaining*

At present most contracts are made between trade unions and chambers of industry and commerce. The overall coverage of collective bargaining is extensive; at the end of 1954 there were 87 national contracts and 102 supplements thereto valid in one or more Provinces. In addition, separate works

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<sup>1</sup> It is the purpose of this series of brief notes to outline some of the main features of wage and price setting institutions, procedures, policies, and controls in the various economies of Western Europe. There is nothing definitive about these notes; they draw only upon those published materials most readily available in this country and can serve only as a basic introduction to the economic institutions and policies of each country covered.

agreements are often made between individual employers and works councils; these, however, do not constitute collective agreements under the law and do not have the same binding force.

Since 1957 the Wage-Price Commission, with labor, industry, and Government representatives, has been in existence and has taken a broad overview of prospective wage and price increases with regard to their inflationary consequences. Originally a temporary and voluntary organization, in 1958 it was given more permanent status and greater legal authority over price setting.

During the years 1947-51, five pacts were negotiated on a national basis which not only increased wages but adjusted many other economic variables in a sort of national economic planning via bargaining among the three main economic interest groups; industry, labor, and agriculture. By these pacts wages, prices, taxes, subsidies, public utility rates, and (on one occasion) pensions were all adjusted in a bargaining process so as to be in a relation to each other which was acceptable to the three interest groups.

#### *Contracts*

The provisions of contracts apply to all employers who are members of the body making the agreement. They also apply to all workers in the enterprises concerned, whether union members or not. Agreements made between individual workers and employers are not valid unless their terms are more advantageous to the worker than the relevant collective agreement.

#### *Collective bargaining and disputes legislation*

The Collective Agreements Act of 1947 provides for the conclusion of agreements by either the statutory bodies representing the interests of workers and employers or by the voluntary associations of workers and employers. The act also requires comprehensive factory rules in all enterprises employing more than 20 persons and the approval of these rules by the works council.

The Works Councils Act of 1947 requires an election of shop stewards every 2 years in enterprises employing more than 20 persons; these shop stewards make up the works council. The council supervises the collective agreement, sees that employment legislation is observed, assists in safety, etc. Legally, the form is one of codetermination, but in practice the role of labor is reported to be much more limited.

In the Collective Agreements Act, conciliation boards were established. They are tripartite, consisting of worker and employer representatives and independent chairmen (usually judges). They mediate disputes arising from collective agreements when requested to do so by either side or by the Government. They do not arbitrate unless both sides request them to do so.

There is no provision in the legal code which specifically guarantees or restricts the right to strike. There have, however, in recent years, been attempts by the courts to distinguish legitimate and illegitimate strikes; in 1954 the Vienna Conciliation Board ruled that a strike called for a purpose not recognized by law was illegal.

#### *Government wage policy*

Immediately after the war the Government maintained comprehensive wage and price controls. These proved extremely ineffective, marked inflation ensued, and the direct controls were replaced with the system of national bargaining already described. Since 1951 Government wage policy has been less comprehensive and more informal.

Minimum wages are set by conciliation boards in cases where collective bargaining does not exist (e.g. homework). No overall minimum wage exists.

#### *Employment policy*

There is a national employment service and private employment agencies are illegal; the employer, however, is free to hire through any channel he chooses. To combat a very high level of seasonal unemployment, the Government has in recent years concentrated its construction activity in the slack season, the winter.

#### *Price control*

Extensive direct controls were employed in the field of consumer goods in the dire circumstances immediately after the war. The system broke down, though, because the farmers did not consider agricultural prices high enough and coerced the Government by reducing deliveries to the city; also industrial prices and credit were never significantly controlled. The outcome was the national price-wage agreement, the first of which, in 1947, was accompanied by a drastic monetary reform.

At present prices seem to be determined mainly by the chambers of industry and commerce in a loose and quasiofficial system of controls. A number of essential consumer goods (bread, milk, fats, sugar, etc.) were long under official price control and may continue to be to some extent. Rents have been controlled continuously since 1917.

The Government Price-Wage Commission acts as a restraining force on prices, as it does on wages. It must be consulted for approval of all price increases and advises the Government on all kinds of economic policy.

#### *Price supports and subsidies*

Extensive subsidies existed at the end of the war. The largest were in agriculture and these have continued, though they were decreased in the early fifties. There were also, in the early years, subsidies on the import of grains and raw materials for fats to adjust for the fact that world prices of these items were far above internal prices. Smaller subsidies existed on sugar, glass, drugs, and hides.

#### *The capital market and profits taxes*

The capital market is still weak and the great bulk of business financing is done internally. Profits are not taxed heavily.

#### *Nationalization*

About one-fourth of all industry came under government ownership in 1947 (most of the firms taken over then had had German owners). This included the largest iron and steel works, electrical power, 95 percent of the coal mines, and most heavy engineering, shipping, and oil companies.

In 1947 the industrial output of nationalized firms represented 22 percent of the total value of Austrian production and 93 percent of the total output of raw materials and basic products. In 1954 they accounted for one-fourth the total value of Austrian exports and employed about 108,000 men. All this does not include the many enterprises (public utilities, banks, insurance, slaughterhouses, hospitals, etc.) which are provincially and municipally owned. In 1951 some 304,000 persons were employed in the public sector as a whole out of total employment for the economy of 1,674,000.

Many public enterprises preserve a high degree of autonomy. They often join chambers and may occasionally belong to employers' associations. Their employees belong to both chambers and unions. Wages and conditions of employment are determined by legislation, but labor has substantial influence over the terms of this legislation.

### BELGIUM

#### *Unions*

The two principal federations are the General Federation of Belgian Labor (FGTB) and the Confederation of Christian Trade Unions of Belgium (CSC). The former group had in 1951 some 638,000 members, more than half of whom were in three large industrial unions: (1) Building and woodworking, (2) metalworking, and (3) public services; it also has numerous small craft unions. The CSC is composed of 17 national industrial unions and had a membership of 534,000 in 1951; about half its membership was contained in three unions: (1) Textiles, (2) building and woodworking, and (3) metalworking. There is also a General Confederation of Liberal Trade Unions with some 38,000 members, as well as a few independent unions.

Each federation is loosely and unofficially affiliated with a political party: The FGTB with the Socialist Party, the CSC with the Christian Social Party, and the Liberal Confederation with the Liberal Party.

Total union membership in 1950 was approximately 1.3 million; there were at the time some 1.7-1.8 million wage earners and salaried employees, so about 70 percent of all those employed were organized.

#### *Employers' associations*

The Federation of Belgian Industries (FIB) has a membership of about 40,000 of the 79,000 enterprises in the economy; when the extremely small size of many of the enterprises counted in the total is considered, it is probable that the FIB represents employers of well over half of all workers. There are also industrial federations or associations in almost every industrial sector.

#### *Collective bargaining*

In many industries bargaining is decentralized, taking place at the enterprise level, and private in nature, with the Government playing no role. A different procedure applies, however, in the case of homework and in certain key industries.

An act of 1945 set up national and regional Labor-Management Commissions in a number of industries; these are made up of equal labor and management representation. In the coke, engineering, iron and steel, chemical, gas, electricity, nonferrous metal, textile, macaroni, and paper industries the national commissions have concluded collective agreements. These agreements, however, have been loose and have only laid down the rules regarding the election of union representatives in individual enterprises, the guarantees which they enjoy, and the subjects on which they can bargain with the employer. A commission can, if it wishes and can obtain unanimous agreement within itself, get a royal decree which makes its decision binding upon the industry and overrules any individual or collective contract with which it conflicts. A fair proportion of all collective agreements of the commissions are made binding and these have in the past affected the rules for works councils, holidays, wages, etc.

Bargaining for homework is carried on in a manner similar to that just described in the National Committee for Homework.

Whereas years ago great bitterness existed between the Socialist and Catholic unions, since the war differences have been largely confined to the ideological sphere and their bargaining policies have been similar, sometimes identical. Union demands have been generally moderate, prompted by a fear of inflation. Their main concern has been to keep up with price rises.

"Structural reforms" agreed to by underground representatives of labor and management during the war were enacted in 1948. They set up a central economic council, industry councils, and enterprise councils, all of which were designed to give organized labor a voice in managing the economy. All these bodies have equal management and labor representation. The Central Council advises the Government when asked and can propose legislation. The industry councils advise the Government on matters relating to individual industries. The enterprise councils have elected worker representatives and bargain with employers over conditions of employment; they must also be presented with regular reports on the operation of the firm by management and have the right to make proposals on work scheduling, productivity, and so forth. The effective force of this codetermination law is probably not so great as the law makes it appear and most traditional management powers are preserved intact.

#### *Contracts*

If contracts are made binding by royal decree (and only those made by labor-management commissions are) they have the same legal force as a Government order and apply to all the employers and employees in the industry concerned. Other agreements made by the commissions, as well as those made by other groups, are also legally binding, but only on members of the organizations signing the agreement.

Cost-of-living clauses are common in contracts and have been recognized as appropriate in principle by the Government.

#### *Collective bargaining and disputes legislation*

The laws providing for the various commissions and councils have been discussed above.

Collective bargaining and strikes have only been legal since 1921. All collective bargaining had been banned by the Le Chapelier law of 1801, though it was later modified to allow unions to function as fraternal bodies.

The labor-management commissions, in addition to the powers previously outlined, can conciliate disputes in their industries. If the commission can agree unanimously on a solution, that solution may be made compulsory by royal decree.

Other machinery exists for mediation and arbitration. Conciliation committees may be appointed by the Government. All told, voluntary conciliation is much used in settling disputes and arbitration is little used.

Labor courts exist which deal primarily with individual labor disputes (between an employer and one or several workers, or among workers). They interpret the law to fit the case and also judge questions of equity. In any case before the courts, an attempt is made first to conciliate the parties.

In various fields judged to be essential to the functionings of the economy by the Government, once the labor-management commissions have reached agreements (which have been made legally binding) the right to strike is limited by requirements to give advance notice, leave a certain percentage of the workers on the job, and maintain certain services.

*Government wage policy*

There has been no centralized Government wage policy. Aside from those mentioned above, no Government interventions in the process of wage determination seem to have taken place.

*Employment policy*

A national employment service exists, but most hiring is done on a private basis. The service has tried especially hard to act against the problem of structural unemployment by encouraging the movement of workers from Flemish labor-surplus areas to the Walloon shortage areas, but there has been little success in his program. Also, there has been an attempt to alleviate specific labor shortages (particularly of coal miners) by inducing the immigration of foreign labor; some inflow, especially from Italy and other southern European countries, has resulted.

*Price control*

Since a vigorous anti-inflationary policy brought price and balance-of-payments stability by 1948, direct controls could be and were eased at an earlier date than in other countries. By 1949, price control had been almost completely eliminated. Rent control was still extensive at this time, but was gradually relaxed and by 1952 affected only the lowest rent categories.

*Import and exchange controls*

Though direct controls on foreign trade and payments were retained longer than internal direct controls, the country was a leader among European nations in trade liberalization. These controls are negligible today and import duties are very low (except in the case of agriculture, which is substantially protected). In 1951-52 proceeds from exports were temporarily blocked as an anti-inflationary device; extensive export licensing was also imposed briefly at this time.

*Price supports and subsidies*

Subsidies are relatively slight, the largest one going to the railroads. Belgian coal received subsidies from the European Coal and Steel Community to aid its transition to freer intra-European trade (because of the high-cost nature of the industry).

*Profits taxes and dividend limitations*

In 1954, in connection with the Government's program of investment stimulation, profits used for reinvestment in fixed plant in industry were partially exempted from taxation. In 1956 this and other measures designed to encourage investment were moderated. At present distributed profits are taxed more heavily than undistributed profits, but the difference is slight, the maximum rate on the former being about 45 percent, as compared to 40 percent on the latter.

*Nationalization*

The public sector is small, comprising mainly the usual services and public utilities. No policy of nationalization has come into effect since the war, so that power is only partly publicly owned and the coal mines, deposit banks, and all manufacturing industries are under private ownership.

At the end of 1953, the total employment of the national, provincial, and communal governments was 260,000, 15.3 percent of the total number of wage earners. In addition, undertakings in which the Government was concerned, either because it had a share of the capital or because it appointed a governing body or managers, employed about 161,000 persons.

## DENMARK

*Unions*

The Danish Federation of Labor is composed of 71 unions, both industrial and craft unions, with the former predominating. Many of the craft unions are very small. The federation is dominated numerically by the General Workers' Union, which had at the end of 1953 247,000 members out of the total federation membership of 693,000.

Outside the federation are three other central organizations: (1) the Joint Council of Public Servants and Salaried Employees (a very loose confederation representing 18 unions with about 87,000 members), (2) the Government Employees Central Organization I (32 unions comprised of 35,000 low-ranking public servants), and (3) the Joint Organization of Foremen and Technical Em-

ployees (eight unions with 23,000 members). There are also six unions with an aggregate membership of 28,000 which are not affiliated with any central organization. Total union membership is thus about 866,000. The proportion of wage and salary workers organized is not known precisely, but appears to be in the neighborhood of 90 percent.

A strong craft tradition within the Danish federation, with its economic orientation, has prevented official affiliation of the federation with the Social Democratic Party, even though there are strong unofficial ties between the two groups.

#### *Employers' associations*

The Danish Employers' Association is the most important employer group. Its members employ roughly 350,000 workers. Its numerical importance is thus much smaller than that of the Danish Federation of Labor, but its influence in the labor market is about as great as that of the federation. It has powers to represent its members in collective bargaining far exceeding those of the federation; it collects dues and pays strike benefits on the basis of size of payroll; it forbids its members to enter into collective agreements on many subjects (hours, wages, union shop, etc.) without the permission of the association's executive committee.

#### *Collective bargaining*

Bargaining is conducted under general rules drawn up by the federation and the employers' association and altered from time to time. The general pattern is for 2-year contracts to be signed (usually industrywide, but occasionally at the enterprise level), most of them terminating at the same time. The Danish Federation of Labor convenes in advance of negotiations and agrees on demands (though it does not have the power rigidly to enforce its directives). If negotiations at the trade or industry level are not progressing well after about 6 weeks of bargaining, the two federations often intervene to settle the remaining issues. If they also fail to agree, State mediators are generally called in.

Farmworkers are covered by collective bargaining (at least those on large and medium-sized farms). They are mostly covered by one large agreement. A distinction is made between permanent and temporary farmworkers, the former being given greater guarantees.

#### *Contracts*

In 1948 there were some 2,000 contracts, some national and others local in scope (the large number is accounted for by the commonness of agreements along craft lines). While most contracts are of 2 years' duration, wages are adjusted semiannually to compensate for changes in the cost of living, by agreement of the central organizations of workers and employers. Agreements typically cover wages, hours, overtime, shift premiums, etc., while some provide for the election of shop stewards and vacations in excess of those provided by law.

#### *Collective bargaining and disputes legislation*

The labor law makes a distinction between disputes over the interpretation of existing contracts and those involving the negotiation of new ones. In the former case, a law of 1934 requires the inclusion of standard clauses in all contracts to the effect that such disputes cannot form the basis of a strike or lockout, but must be referred to a mediation committee. If mediation does not settle the issue, recourse must be had to a board of arbitration for the industry (a permanent body with equal employer and worker representation and a neutral chairman). There is also a permanent court of arbitration, which judges matters concerning the validity of agreements and settles disputes if requested to do so by the parties (though this is normally the function of the industry's own arbitration board). The court has the power to levy fines on both individuals and organizations.

In the cases of bargaining on new agreements, Government mediation is generally accepted as the final stage of the process if agreement has not been reached previously. The mediator enters the case at the request of the parties or may do so at his own initiative if a strike or lockout notice has been served. He may force postponement of a strike for 1 week. He may withdraw without submitting a proposal; if, however, he does submit one, it must be accepted or rejected by a majority vote of the organizations concerned. Occasionally, upon a negative vote of either organization, Parliament has required arbitration or even enacted the mediator's proposal directly into law. In general, though, bargaining remains voluntary.

*Government wage policy*

The Danish Federation of Labor is closely, if informally, allied to the Social Democratic Party, which has been in power (either alone or in coalition) almost continuously since the thirties. Through informal influence, as well as the machinery outlined above, the Government has kept man-hours lost in industrial disputes extremely low since 1947. Also, since 1950, it has exercised its influence to induce the federation to follow a policy of wage restraint. Government wage policy thus expresses itself mainly in an informal manner. There is no legal minimum wage.

*Price control*

Extensive price control followed the war and was gradually being eased when the rise of external prices in 1949-50 brought new problems and the reintroduction of some price controls (an extreme example was the imposition of price controls on grain, coupled with compulsory deliveries). In 1952, external prices fell and output increased; both the old price controls and the newly imposed ones were then largely removed. Rents, however, continued to be controlled.

*Import and exchange controls*

The Korean inflation blocked extensive trade liberalization in Denmark, which was hit particularly hard, having no raw materials to export. In 1951 the level of liberalization was well below the OEEC-prescribed level of 60 percent and Denmark was given a period of grace. The country complained that its low tariffs gave it a weak bargaining position in regard to the removal of quantitative restrictions. Further liberalization has proceeded slowly. In 1952 the Government tried to stimulate dollar exports by allowing 10 percent of the proceeds of such sales to be used for purchases of goods subject to import licensing. In 1951 a "deposit" system was briefly in effect whereby imports of textiles and clothing were freed from quantitative restrictions on the condition of substantial cash deposits by the importers and this greatly aided credit tightening.

*Monopoly regulation*

Before the war Danish industry was heavily cartelized (cartels and monopolies accounted for 50 percent of industrial output in 1937) and there was no significant feeling that monopoly should be openly opposed. Since the war there has been more interest in regulation. In 1955 a law to regulate monopoly and anticompetitive practices was passed giving the Government the power to prevent "price gouging."

*Price supports and subsidies*

Housing construction is subsidized and the degree of subsidization is tightened and loosened according to the severity of inflationary pressure on the economy. Railway rates are another subsidized item; when they were allowed to rise in 1953, a rise in the cost of living was prevented by reducing the income tax in the lower brackets.

*Nationalization*

The Government has practically no interests in industry or commerce. It operates the usual services and public utilities, as well as the naval dockyards and all armament plants. In 1953, 6.6 percent of all workers employed in Denmark were employed in public administration and another 2.2 percent worked in industrial and commercial undertakings in the public sector.

## FRANCE

*Unions*

The French labor movement is badly factionalized. Though no membership statistics are available, it is evident that by far the largest federation is the Confederation Generale du Travail (CGT), which is Communist oriented. The other two major labor centers are the Catholic Confederation Francais des Travailleurs Chretiens (CFTC) and the Confederation Generale de Travail-Force Ouvriere (CGT-FO). The bulk of unionists belong to these three federations, but there are also a number of independent federations and unions; among the former are the Confederation des Syndicats Independents (CGSI), the anarchist Confederation Nationale de Travail, and others; among the latter is the powerful Teachers' Union, which has been unaffiliated since leaving the CGT. There is also the Confederation Generale des Cadres (CGC), which commands some support among supervisors.

The structure of all the federations is similar. The federations lay down general policy recommendations but in fact have very little power over their constituent bodies. These bodies are the federations, which are national groups representing an industry or group of industries. Each federation is made up of syndicates, which are local unions grouping together the workers of the industry concerned in a given locality. The syndicates are also grouped horizontally in unions locales and unions departementales, which represent all the syndicates affiliated to the confederation in each locality and department respectively.

The majority of workers in private industry are unorganized (the unions are stronger in nationalized industry).

All unions are active in the political sphere. The CGT, of course, is Communist, while the FO is close to the Socialist Party and the CFTC to the Catholic MRP, though neither the latter two is controlled by the party.

One great weakness of all unions is that dues are very low and paid with great irregularity. Also, the concept of membership in a union lacks precision and voting pronoun in shop elections may be considered proof of membership, even though dues are paid seldom or never.

#### *Employers' associations*

The Conseil National du Patronat Francais (CNPF) is the recognized organization of industrial and commercial employers and represents them in bargaining and with the Government. Most large firms are represented in the CNPF, which is made up of a federation for each important industry or group of industries. There are also some smaller specialized employers' associations, as well as societies generally intended to improve human relations in industry (whose memberships overlap that of the CNPF).

Policies within the CNPF are generally well coordinated. The regional and national federations have considerable control over wages in individual establishments.

#### *Collective bargaining*

Collective bargaining is still of limited importance in France. On the one hand, a substantial sector of the economy remains unorganized and the more or less unilateral decision of the employer governs wages and conditions of work there. On the other hand, the state plays a large role. The continual and bitter wranglings among labor groups have made employers unwilling to put much trust in them and the unions, recognizing their own weakness, have often preferred government intervention to really free bargaining. Bargaining is variously conducted at national, regional, and local levels.

In deference to the interests of the smaller labor organizations, the principle of multiunion representation in collective bargaining has long been recognized. This has stimulated interunion rivalry and made more difficult the process of arriving at an agreement.

The fact that the CGT is Communist dominated has led to the introduction of many new and unrelated issues into collective bargaining. Strikes against the Government or against other unions have been common and there has often been little interest on the part of the CGT in an ultimate settlement of differences.

Aside from these union weaknesses, another reason for the poor functioning of collective bargaining is that many employers accept it only as a lesser evil than government control. In general, the employers are better organized than the workers, are more unified, and have more money and information.

In the nationalized industries which are in sectors of the economy that are not competitive with private industry, bargaining has consisted of unions bringing political pressure to bear on the Government in order to alter its decrees. In the competitive sector regular collective bargaining occurs in publicly owned enterprises.

#### *Contracts*

National agreements (and in some cases regional and local agreements) must by law contain certain clauses on the exercise of union rights, wages for each labor grade (including differentials for difficult and dangerous work and equal pay for women workers), conditions of engagement and dismissal, shop stewards and works committees, conciliation, etc. Cost-of-living sliding scales are rare, but a number of agreements provide for reopening if prices rise by a specified amount.

Wage contracts are often signed independent of complete collective agreements. Especially in the early years after the war was this so; interest then centered on wages because of the sharp inflation and three times as many wage

contracts were concluded as complete collective agreements. Since 1953, though, negotiation of complete collective bargaining contracts has spread considerably.

#### *Collective bargaining and disputes legislation*

The law presently regulating collective bargaining was passed in 1950. Previous to that time (since 1946) conditions of employment had been subject to bargaining, but wages remained under Government control. The new law generally marked a return to free collective bargaining, but with three exceptions: (1) The Ministry of Labor has the power to decide whether or not a collective agreement should be "extended" to apply to workers and employers not a party to the agreement, (2) a Government-appointed Higher Commission of Collective Agreements sets a national minimum wage for each occupation on the basis of a family budget, and (3) in nationalized industry collective bargaining is practiced only where there is no law regulating conditions of work (in practice, only where nationalized industries compete with private firms).

In regard to the settlement of disputes, the law states that all national agreements (and regional and local ones in special circumstances) must contain clauses for the settlement of disputes. Either the parties or the Government can initiate conciliation. Arbitration is strictly voluntary.

At the firm level in private industry, works committees are required by law to be elected in all enterprises employing 50 or more persons. These committees manage various social activities associated with the firm and have purely consultative powers in regard to the management of the firm.

#### *Government wage policy*

The national minimum wage is an important part of Government wage policy. Its importance in the process of wage determination arises from the fact that many of the rates set unilaterally by employers or jointly by collective bargaining are at or just above the minimum and must be changed when it is altered. In setting minimum wages, the Government consults the Commission Supérieure des Conventions Collectives, which is made up of employer and employee representatives. The wage is the same for men and women but is differentiated by province. According to a law of 1952, when the family consumption price index rises 5 percent, a proportional increase in the national minimum wage must be made. The substantial lag in the process means that the maintenance of real wages is by no means guaranteed.

The sizable benefits payments (pensions, family allowances, etc.) have been used by the Government to bring about a substantial redistribution of income among wage earners. The role of the Government as the largest single employer in the economy gives it a device for influencing wage movements directly.

#### *Price control*

Considerable price control was used immediately after the war. Much of it was removed in 1949 in favor of a policy of monetary and fiscal restraint and prices rose sharply. This inflation brought on the replacement of some of the price controls just removed, but from this time on they were used as a supplement to other policies and not relied on so heavily as before. Beginning in 1957, the Government began to remove what price controls remained, with the aim of freeing prices entirely. Price control through most of the period has been considerable, applying, even since the relaxation of 1949, to many basic agricultural and industrial products, as well as to rent. In 1954 it covered such essential products as coal, oil, electricity, gas, fertilizers, and sulfuric acid; in addition, autos, glass, and tractors were subject to a measure of control.

#### *Monopoly regulation*

Large-scale organization has been fostered since the war by (1) the fact that only large-scale firms can engage in self-financing, and borrowing has been difficult or impossible; (2) the Monnet and second nationalization plan, which were more easily applied to large firms; and (3) nationalization, which closed down a certain number of firms. The highly organized nature of business has produced a large number of agreements of various kinds between firms in regard to prices, marketing, etc. There is legislation in existence which condemns restrictive practices, but which seems to be rather ineffective in practice. Stronger laws were considered in 1950 and 1951, but no new legislation was passed.

#### *Price supports and subsidies*

These have always been considerable in France relative to other countries. Agriculture is the largest recipient, but many sectors of the economy have their own niches, protected by tariffs, price supports, or subsidies, open or disguised.

There has been a program in effect since 1954 for the modernization of key branches of industry (coal, electricity, steel, cement, etc.). This is supported by subsidies, cheap credit, and the development of a capital market. Its aim has been to stimulate research, reorganize marketing, and encourage the specialization of firms so as to expand overall investment and aid internal and external stability.

The system of agricultural price supports is elaborate but capricious. It covers a wide range of agricultural products, especially those which form an important part of French exports, but in the aggregate does little to raise the low level of rural income.

#### *Profits taxes and dividend limitations*

Though corporate profits are at present taxed at a rate of 50 percent, there are several provisions which soften the impact, providing that funds go into capital outlays. One year's depreciation is granted in the year that an asset is acquired, in addition to normal depreciation (this does not apply to assets with lives of less than 5 years or to buildings). For certain types of assets an additional 10 percent deduction is allowed in the year of purchase (this applies to equipment intended to modernize facilities). A deduction from taxable income is allowed on dividends paid on new stock which has been issued to increase paid-in capital (limited to 5 percent of the new capital); this may be claimed in each of 7 years. The base of the value-added tax on new construction has recently been decreased by 30 percent.

Restrictive taxes have been mainly those affecting consumption: The progressive income tax is steeply graduated in the low and middle ranges and there is a myriad of indirect taxes on a wide variety of items.

#### *Nationalization*

The public sector is fairly extensive and perhaps accounts for 20 percent of industrial output. Areas of the economy covered include 97 percent of coal production, the whole of the tobacco, armaments, aircraft building and explosives industries; parts of the refining and automobile metals industry; much of the construction industry; nearly all public utilities; most of banking and insurance; transportation. In 1952 the Central Government employed some 965,000 persons; employment by local government in 1950 totaled 368,500; neither of these figures includes personnel employed by public or semipublic concerns having a legal personality and financial autonomy.

### GERMANY

#### *Unions*

The central organization is the Federation of German Trade Unions (DGB), which is made up of 16 unions. Its membership was some 6.1 million in 1954, of which 1.7 million were in the Metal Worker's Union, its largest affiliate. This membership represented 35 percent of the workers employed in the economy in 1954. There are also some smaller federations and unions which are not affiliated with the DGB; though the exact membership of these is not known, they probably raise the percentage of the working population which is organized to 40 to 50 percent. The metal workers and the three other large unions which make up more than half the membership of the DGB are the only unions which have organized more than one-half the workers in their jurisdictions.

Power is concentrated at the top level of organization. Basic social, economic, and political policy is all made by the DGB. The DGB has the power to remove any elected or appointed union official from office (though it does not use it frequently). It also has a large share of the revenue from members' dues at its disposal. At the plant level, unions are not very active (there is no local union in the plant). Worker interest is diluted by the fact that bargaining is not conducted at the local level, by the traditional German acceptance of leadership, and by the greater emphasis on high-level political representation of labor than on collective bargaining.

Within both the DGB and the individual unions there is organization on a geographical basis with district and community bodies (the latter only in towns where there are enough union members). Of these, the district officers of the unions are the most important; they sign contracts with employees' associations, represent workers in the labor courts, call strikes, lobby on state legislation, etc.

#### *Employers' associations*

Employers are thoroughly organized and employers' associations are just one type of body that serves this purpose. The central organization of employers'

associations is the German Confederation of Employers' associations. It is made up of 822 member associations, organized into 35 industrial federations and 13 provincial federations.

Employers' associations include almost all employers and exercise a strict discipline over their members. The pressure exerted by the associations on members is partly the force of convention and social pressure and partly such devices as influencing prices and discounts, influencing credit terms and availability, etc. These powers are seldom used, however, as the will to conform is great among employers. The confederation similarly exercises some disciplinary powers over its constituent federations, primarily by persuasion.

The typical association consists of the manufacturers of a single product in a single state. Cases exist, however, where part of a state, more than one state, or more than one product is involved.

Besides the employers' associations, there are other organizations in which employers band together to protect their own interests. Small employers belong to "Innungen," which are guild-like groups which regulate trade practices and apprenticeship. There are also chambers of industry and trade, which represent the interests of employers on broad issues such as taxation.

### *Collective bargaining*

Most contracts are signed by the district offices of the union and the district employers' association for the industry, though some are negotiated at the national level. Local agreements are never signed, though amplification and supplementation of an agreement already signed may come at the local level.

There have been very few strikes since the war and this has affected the nature of collective bargaining. Strikes have been few because union leaders have had a feeling of social responsibility in regard to reconstruction, because they have emphasized legislation over immediate economic gains, and because the unions have been relatively weak financially and organizationally. Long periods of negotiation and frequent acceptance of a pattern settlement are two common results of the virtual absence of a strike threat. Conciliation and arbitration have also served as important substitutes for strikes. This willingness of the German unions to wait for the achievement of long-run goals and their reluctance to press for immediate gains appears to have hurt their popularity among workers.

It is at the plant level that such issues as employers' rights of discipline, discharge, etc., the modification of wage agreements, and contract administration have been handled. The character of the bargaining relationship here depends on whether the employer is strict or liberal in employee relations. Master agreements commonly set minimum terms of employment and subsequent variations at the plant level are all to the advantage of the employee.

Bargaining, in recent years, at least, has been annual with most contracts expiring in the fall. The metalworkers have generally been the first to negotiate and their settlement has set a pattern which has been widely followed elsewhere. This situation has been characteristic of the years since 1955, which have been marked by less restraint and more militancy on the part of union leaders than previously.

### *Contracts*

Contracts may be inspecific on points of detail or even on whole subjects, leaving the matter to the "social judgment" of the labor court and avoiding taking the responsibility on the negotiating parties.

Contracts are reached by a union and an employers' association, usually in one industry in a specific region. They do not automatically extend to nonmembers of the signing organizations, but may be extended by government decree if requested by one of the parties and found in the "public interest" by the Ministry of Labor (if they already apply to employers with more than 50 percent of the employees in the industry and area).

Since contracts are so wide in their coverage, they must be broad enough to cover all employers, whether direct parties to the agreement or not; they are frequently at a minimum level (or else it might be possible for nonmembers of the employers' association to block the extension of the contract). The more specific terms of the agreement are filled in by bargaining between the individual employers and the works councils.

### *Collective bargaining and disputes legislation*

Tripartite labor courts exist in much the same form in which they were established in 1926. They are open to all workers and employers, whether affiliated or not, and judge only disputes arising from the interpretation of a contract

For arbitrating contract negotiations (which is contingent upon the request of the parties concerned) many of the same people who sit on the labor courts are appointed to arbitration boards.

In addition to the labor courts, there are conciliation offices in each state which can be used by negotiators. They are of little practical importance, though, because there are few of them and almost every case they handle is eventually referred to arbitration.

The law on extension of contracts (as outlined above) makes it possible for a minority of employers to negotiate for all employers and also enhances the importance of employers' associations. Since it does not require unions to have a membership of over 50 percent of the workers, it becomes to the unions' interest to have a strong employers' association.

The works councils were first established after World War I and are presently governed by the Works Constitution Act of 1952, which requires a council in all plants employing more than 20 persons. The works councils negotiate supplements to master agreements and handle grievances, generally performing the functions of an American local union.

The Codetermination Law of 1951 gave a legal base to a relationship which had sprung up in the steel industry immediately after the war and extended the relationship to mining. It gave labor representatives (chosen by the works councils and the unions) equal representation with representatives of stockholders on the boards of supervision. The results of this innovation have apparently not been so striking as the unions hoped and the employers feared; labor managers have usually taken a point of view close to that of the other managers.

Many conditions, such as terms of dismissal, holiday pay, payment of educational grants to apprentices, etc., are also set by law.

#### *Government wage policy*

Government policy since the war has generally favored slow wage increases (or none at all). The facts that the employers' associations have had greater power than the unions and that they are especially anxious to hold the line on wages have apparently made the most effective Government policy one of nonintervention.

#### *Price control*

When the Allies took over Germany, the Preisstop of 1936 was still ostensibly in effect, though the money economy had virtually broken down. This condition continued up to the currency reform of June 1948, when as many of the direct controls as possible were scrapped, including most of the price controls.

#### *Monopoly regulation*

In 1947 the occupying authorities all instituted strong decartelization laws designed to combat price fixing, market control arrangements, and similar restrictive practices. Separate laws breaking up I. G. Farben and firms in the coal and steel industries were also instituted. As an independent nation, Germany has undergone a long battle over monopoly legislation which finally ended in a law effective at the beginning of 1958. The new law is based on the principle of abuse of economic power and sets up a cartel authority with powers to act against such abuses. It exempts cartels formed to counteract a structural crisis resulting from a permanent shift in demand, rationalization agreements, etc., and those found to be necessary in the light of the economic situation and the public interest (presumably in a depression). The vigor of enforcement and the nature of court interpretation of the law are yet to be seen.

#### *Profits taxes and dividend limitations*

In the early days of recovery, many special tax reliefs and depreciation allowances were used to provide a high level of investment at a time when the capital market was nonexistent and personal savings were nil. Throughout the postwar period the tax structure has strongly favored investment over consumption. Tax policy has been important in stimulating investment, especially a wide variety of accelerated depreciation schemes (though in 1958 it was decided that reliance on internal financing was excessive and some of the depreciation rates were retarded). A liberal dividend policy is encouraged (so as to stimulate external financing) by taxing distributed profits at 15 percent and undistributed profits at 30 percent. This has led, in recent months, to the development of an active capital market, the lack of which has long been a problem.

### *Nationalization*

The state owns considerable industrial and commercial facilities, particularly in the coal, steel, aluminum, power, and shipbuilding industries, and in certain types of banks. In 1954 the Federal Government owned 8 percent of the nominal capital of all joint stock companies. The present administration has announced itself to be opposed to nationalization and has made no attempt to expand nationalized industry (though it has participated in transportation projects). It has made some efforts to dispose of nationalized undertakings, but little has been done in this field. In 1954, some 2.5 million persons were employed in Government administration and in industrial and commercial undertakings without legal personality (out of 17.6 million employed in Germany and West Berlin); in addition, 241,000 persons were employed in private companies in which public authorities had an interest.

## ITALY

### *Unions*

There are four important confederations in Italy. In order of size they are the Communist-dominated Italian General Confederation of Labor (CGIL), the predominantly Catholic Italian Confederation of Workers' Trade Unions (CISL), the mainly Social Democratic Italian Labor Union (UIL), and the neo-Fascist Italian Confederation of National Workers' Trade Unions (CISNAL). Membership figures are highly uncertain, but estimates are: CGIL, 3.5 million; CISL, 1.75 million; UIL, 470,000; and CISNAL, 80,000. It seems certain that less than half of the working population is organized. There are also various small federations and independent unions.

Though the four federations are mutually hostile, the CISL and UIL frequently combine against the CGIL; religious and political differences, however, prevent their merger. In recent years the non-Communist unions have been gaining membership at the expense of the CGIL.

As is the case in France, union dues are very small and, even so, are paid very irregularly. In view of the competition among the confederations, "members" are kept on the rolls even though they do not pay dues.

Each confederation is made up of national industrial unions, which in turn consist of local associations uniting all the members of the federation (i.e., national union) in a given locality. There are no true local unions. Ties between the local associations and the federations are rather loose, the latter having too few resources to render much aid to their affiliates.

### *Employers' associations*

There are three main confederations of employers which have a national character: (1) the General Confederation of Italian Industry (Confindustria) with 103-member federations, (2) the General Confederation of Italian Agriculture with 6, and (3) the Italian General Confederation of Commerce with 59. Members of the industrial confederation hire some 2.5 million persons; the agricultural confederation has 1.8 million and the commercial confederation about 300,000.

### *Collective bargaining*

Collective bargaining is conducted at the national level in the great majority of cases. It is in the hands of either the confederations of employers and workers or the industrywide organizations (federations in Italian terminology). Such agreements as are concluded by these groups tend to reflect the cost conditions of the least efficient producer within the given category (the employers' associations have always successfully maintained their insistence that no one should be forced out of the market by the agreement). It is assumed by the unions that the terms of the contract are minimal and that upward adjustments will be made at the plant level, but the weakness of the unions at the lower levels makes this unlikely to occur). Commonly, in fact, the local association finds itself unable to cope with managements which refuse to honor the national agreement at all.

Up to very recently, the employers' association bargained for publically owned firms as well as private ones, but this practice has been ended.

### *Contracts*

Contracts signed at the national level are both very broad and minimal in their terms. Because of their inability to enforce national contracts at the local level, the unions have sought legislation to make collective agreements

legally binding and applicable to all workers in the category, but no such law has been passed as yet. Contracts are typically of long or indefinite duration.

Cost-of-living bouses are regulated by an agreement among all the confederations which provides an adjustment every 2 months. The amount of the adjustment differs according to formula among provinces.

#### *Collective bargaining and disputes legislation*

Organizations of employers and workers do not seem to be granted any legal position at all, though a "complete trade union law" was said to be under consideration in 1957. Likewise, no legal framework exists which gives the collective agreement legal status or makes it binding in any way.

#### *Government wage policy*

Government mediation in disputes over national agreements is recognized. Mediation also occurs occasionally at the local level. The Government has made indirect attempts to secure better adherence to contracts, especially by small firms. One such attempt has been the insertion of special clauses into public contracts stipulating that contracting firms must observe the minimum wages and conditions established by collective bargaining. Another is that Government employment offices are instructed to refer jobseekers only to firms which observe contractual conditions. There is no minimum wage legislation.

The Government has proclaimed itself to be interested in wage restraint but does not seem to have done anything to further this goal. Actually, the problem has not been too serious because the persistence of unemployment since the war has kept serious wage pressures from developing.

Recently the Government took away from the General Confederation of Italian Industry the right to bargain for the public sector. Government wage policy since that time has generally been to grant its employees benefits comparable to those given in the private sector.

#### *Price control*

Considerable price control was employed immediately after the war. As in other countries, it was later eased considerably, but a substantial degree of control seems to remain even now.

#### *Import and exchange controls*

Immediately after the war, imports were controlled very tightly. In October 1947 a new anti-inflationary program was inaugurated: credit expansion was severely limited while import licenses were freely granted for many essential goods to importers able to supply the necessary foreign exchange from their own hitherto undeclared reserves. This policy proved to be remarkably successful in curbing inflation.

Imports and payments have been steadily liberalized ever since the war. By late 1950, the 70-percent level of import liberalization had been reached. At present the lira is freely convertible into a wide range of currencies. Trade and payments with the dollar area have been much more slowly liberalized, and in 1956 only 40 percent of dollar imports had been freed from the quota system.

For a short while after the war, certain key exports were channeled through State trading organizations so as to maximize their effectiveness in earning foreign exchange.

#### *Monopoly regulation*

Monopoly and cartelization have a long history of approval and even favor in Italy; prior to the Fascist regime they were often favored to better Italy's international competitive position and under the Fascists they were encouraged as an instrument of Government control. At present they are considered desirable in some circumstances and monopoly is not regulated per se. Voluntary cartels are legal, though the Government can, under certain conditions, either abolish them or make them compulsory; they are not supposed to be permitted where their pricing policies injure consumers. New legislation has been considered for removing the provision for compulsory cartels and moving the responsibility for administering public control out of the hands of the Government and into those of the courts.

#### *Price supports and subsidies*

Budget expenditures for price supports and subsidies are considerable. Inefficient Government-owned firms which keep independent books are often compensated for their losses. The Government hopes that structural changes

connected with its development plan will make these payments less necessary in the future.

#### *Profits taxes and dividend limitations*

Tax policy has been investment-stimulating, particularly in regard to foreign investment and in selected areas of the economy. The main devices in this program at present are: (1) a 50 percent concession on the transactions tax on materials and machinery used for the installation of new plant or the enlargement or improvement of present facilities, (2) income tax exemptions for 10 years on income from newly established industrial plants, (3) income tax exemptions for increases in income resulting from the enlargement or improvement of industrial plants, and (4) a concession of up to 50 percent from the income tax for profits committed to investment in southern Italy. Investment-favoring exemptions have also been granted on customs duties, registry taxes, mortgage taxes, and regional taxes. Tax policy has stimulated investment indirectly, also; the great revenue needs of the Government after the war led to heavy reliance on easily collected indirect taxes, thus discouraging consumption.

#### *Nationalization*

Direct state ownership is fairly limited, including the usual services, all public utilities, and state monopolies in salt, quinine, tobacco, and lotteries. Some 1.2 million persons work for public services and monopolies (these total almost 9 percent of total employment in the economy). Indirect Government influence, stock ownership, and control, however, cover a much broader field. This influence is exercised through the Institute for Industrial Reconstruction (IRI), which goes back to 1933 and now operates on an autonomous investment trust. The IRI dominates heavy industry and in effect gives the Government a very large measure of control.

### NETHERLANDS

#### *Unions*

There are three major trade union federations, split along ideological and denominational lines: (1) the socialist and nondenominational Netherlands Federation of Trade Unions (NVV), (2) the Catholic Workers Movement (KAB), and (3) the Protestant Labor Federation (CNV). There is also the Communist Eenhedsvakcentrale (EVC) which is not recognized by the Government, the employers' associations, or the other labor federations and thus takes no part in collective bargaining. The membership of the first three federations in 1956 were 500,000, 350,000, and 200,000 respectively; no membership figures exist for the Communist organization. Total union membership was in 1953 about 1.1 million. The three federations cut indiscriminately across industry lines, being tied together by religious and social principles rather than common economic interests.

#### *Employers' associations*

As is true of the unions, there are three employers' associations, split along ideological and denominational lines. There is not, though, so much division among employers as among workers; whereas the combined membership of the denominational labor federations is larger than that of the NVV, the two denominational employers' associations are very small. The liberal and nondenominational Central Employers' Association (CSWV) represents about 80 percent of all employers. Various small miscellaneous employers' associations also exist. All the major and minor associations are represented in the Council of Employers' Organizations, which provides representation of the employers on the Labor Federation.

#### *Collective bargaining*

During the war, employer and union groups in exile in London and underground negotiated with each other and decided to form a bipartite body, the Labor Foundation, after occupation ended. This body was actually formed in 1945 and collective bargaining has centered around it ever since. Bargaining is thus highly centralized; it is also closely connected with the Government. The Board of Government Conciliators (see below) possesses sweeping powers to decide labor matters. In practice, however, it does nothing which does not meet with the approval of the Labor Foundation, whose opinions, in turn, have been reached by bargaining and compromise of the interests of the main economic groups at the national level. National bargaining can also take place

independent of the board, via direct relations between the blocs which make up the Labor Foundation and the top levels of Government and the political parties.

The system worked smoothly up to 1954, when some employers, feeling that emergency conditions were over, began to seek greater freedom. Union opposition to the system grew in the 1954 and 1955 prosperity as the share of wages in national income suffered. To preserve wage control, the Government bought union acquiescence by restoring direct controls on prices.

Strikes have been extremely rare since the war. This has been largely a result of the centralized collective bargaining system, but also reflects the longstanding policy of the Catholic and Protestant unions of striking only in extreme circumstances.

#### *Contracts*

Contracts are binding only upon approval by the Board of Government Conciliators (which may, however, disapprove or alter them). Cost-of-living adjustments are standard and come semiannually. At the end of 1954, there were in force 469 collective agreements, 71 of which applied throughout the country.

#### *Collective bargaining and disputes legislation*

The basic law regulating collective bargaining is the extraordinary decree on labor relations of 1945 (intended as an emergency measure, it has remained in effect). The law frames a scheme for comprehensive wage control. It set up a so-called Board of Government Conciliators, which is really a wage control board, with power to (1) establish general rules and principles of wage determination, (2) set specific wage rates, (3) approve, disapprove, or modify the terms of collective agreements (which are not valid until the board has approved them), (4) extend the provisions of contracts to parties outside the bargaining unit, (5) grant specific exceptions to established wage rates, and (6) obtain compliance with its regulations via court action. Its powers are limited (1) by the fact that it is responsible to the Minister of Social Affairs, who is in turn responsible to Parliament and (2) by the requirement that it obtain the advice and opinion of the Labor Foundation "concerning matters of general importance" (as seen above, this is not treated as a mere formality, but taken very seriously).

#### *Government wage policy*

In 1950 the Government established a Social and Economic Council to advise it on policy. The council is composed of persons nominated by the unions, the employers' associations, and the Government. It is intended to supplement rather than supersede the work of the Labor Foundation.

The main goals of the comprehensive national wage policy have been (1) the maintenance of economic stability through control of the general wage level and (2) the establishment of an equitable and satisfactory wage structure. The idea of achieving these goals through the market was deliberately abandoned. In regard to the latter objective, a formula was accepted whereby semiskilled workers' wages were fixed at 10 percent and skilled workers' wages 20 percent above the level for unskilled workers. To allow for differences in the cost of living, the country was divided into five zones and wages were graded accordingly. A minimum wage for unskilled labor was set at a level corresponding to reasonable subsistence.

Up to 1950, the wage structure was simply adjusted upward at a rate equal to the rise in the cost of living. With the Korean inflation, the unions agreed to a cut in real wages and this was done by raising wages only 5 percent while prices rose 10 percent. Since 1954 the general improvement of economic conditions has led to the sanctioning of wage increases in excess of the rise of living costs.

Wage determination has in recent years remained under close central control. The Government has, at various times, been instrumental in instituting economy-wide changes in specific fringe benefits, such as vacation pay, retirement benefits, and bonuses.

#### *Price control*

A system of price control exists at present, having been forced on the Government in 1954 as a prerequisite to wage stabilization. The current price control consists of an agreement that prices will not be raised without Government approval. This control is entirely distinct from that which was in effect after the war, which was progressively abandoned with the recovery of output in the late forties: some relaxation preceded the currency devaluation of September 1949, prices were frozen for a short period afterward, and then further relaxation followed.

### *Monopoly regulation*

There is fairly effective trust control legislation and the Government has acted rather frequently to halt cartel abuses. In the 1956-58 period there were 46 such proceedings, 33 of which resulted in the abolition or adjustment of the arrangements. The threat of inflation has been especially instrumental in moving the Government to vigorous action, particularly against price cartels.

### *Price supports and subsidies*

The volume of subsidies in the economy is substantial. The most important of these go to agricultural producers (these were increased sharply in 1957 to raise farm incomes and again in 1958 to offset falling export prices). Also important are rent and building subsidies. There are also consumer subsidies, which are relatively small in amount.

### *Profits taxation and dividend limitations*

Starting in 1954, the Government was able to adopt the strong policy of favoring investment which it had long wanted to use (previously inflationary pressure had stood in the way). The aims of the new program were to encourage modernization and to provide for the rapidly growing population. The company tax was reduced and tax concessions were made with regard to depreciation and losses incurred in new industrial ventures. Limitations on dividends were removed in 1954.

At present the policy of limiting consumption and favoring investment still applies. The personal income tax is steeply progressive in the low and middle ranges, but has a peak rate of 64 percent; there is a 5-18 percent turnover tax on all goods except textiles and exports. The corporate income tax has a top marginal rate of 47 percent but its impact is softened by (1) accelerated depreciation on one-third the purchase price of equipment, and (2) deductions from taxable profits over the 1959-62 period for investment expenditures.

### *Nationalization*

Despite the wide scope of Government influence in the economy, the area of public ownership is not great. The Government confines itself to the conventional services and public utilities, except that it owns about 80 percent of the coal mining industry and has a share in a number of metal and armament enterprises. Employment in the Government sector in 1950 was 269,000.

## NORWAY

### *Unions*

The main federation is the Norwegian Federation of Labor (LO), which had, at the end of 1956, a membership of over 550,000 in its affiliated unions. Outside the LO are a number of independent unions with total membership of about 80,000, almost entirely in the white-collar field (though LO has some 125,000 white-collar members).

The LO can claim the allegiance of only about one-third of the labor force, but it is very strongly entrenched in some areas: approximately 90 percent membership in shipping, mining, and manufacturing; about 50 percent in building and construction.

The direct members of the LO are the national unions, of which there are at present 44 in the federation. Approximately one-half of the LO membership is made up of the large industrial unions in the iron and metal working, building and municipal, shipping, commercial and office, chemical, and general workers groups. The 11 top unions in the LO have 75 percent of the membership.

Organizationally, the union movement is made up of national unions, which conduct negotiations and sign contracts, local unions, which deal with specific plant matters (though it is not uncommon for national unions to intervene here), and local committees, which comprise all unions in a given area and are mainly of significance outside the collective bargaining field.

Since the war the role of the federation in conducting the industry-wide negotiations has been increasingly great. Part of its influence stems from its control of strike funds, though a larger proportion of strike benefits are paid by the national. More basically, the LO is closely tied to the Labor Party, which has been in power continuously since the end of occupation, and this leads the LO to try to interject a broad national policy into all aspects of labor relations (though it is not always able to enlist this support of its member organizations in this). In cases where several unions are involved in a negotiation, the LO invariably takes charge of the negotiations, prohibiting individual settlements.

It may also order sympathy strikes to support disputes where single unions are involved.

#### *Employers' associations*

The main group representing employers is the Norwegian Employers' Confederation (NAF). Compared with the LO, the NAF is less important in terms of number of persons employed by member firms. However, despite the fact that there are several large employers' associations in particular industries (most notably shipping) which remain outside the NAF, its practical influence on employer policy exceeds its numerical significance. Employment in firms within the NAF is over 200,000; in firms in associations outside the NAF it is more than 100,000.

Like the LO, the organization of the NAF is highly centralized. All contracts signed by members must conform with general policies of the NAF. No individual employer may negotiate outside the bounds of his industrial association.

#### *Collective bargaining*

As already noted, one of the prime characteristics of labor-management relations is their centralization; general policies of the NAF and LO enter heavily into all negotiations. The actual bargaining, however, is almost all conducted at the industry level between the national unions and the industrial associations of employers; they have individual positions independent of or at variance with those of the federations, and it is possible to exaggerate the importance of the latter.

Most agreements run for a period of 2 years and expire within a few months of each other. Policy for coming rounds of negotiations is prepared well in advance; the LO, for instance, meets in odd years to formulate a set of general demands which, while not binding on its affiliates, form the real basis for negotiations. National unions must obtain the permission of the LO prior to asking the industrial associations to open negotiations and the LO sometimes takes this opportunity to achieve the moderation of demands of the union which it considers excessive. Not infrequently the federation insists that uniform demands on certain subjects be made by all its constituent unions. Since they are not in general the one serving the demands, the employers make less of a formal preparation for negotiations.

While bargaining starts as an interchange between representatives of the unions and employers' associations, often outside parties have to be brought in before a final settlement is reached. If the positions of the initiating parties are relatively close together, the intervention of LO and NAF officials is usually enough to settle the issue. Where the positions are farther apart, Government mediation is often used.

The issues involved in collective bargaining tend to be relatively narrow because standards in regard to many fringe items are determined by legislation.

#### *Contracts*

Legally the collective agreement applies only to the groups which negotiate it and their members. Unorganized workers are not covered, but legal decisions have recognized their right to equal wages and working conditions. If a situation exists where unorganized workers are underpaid, the union with whose members they are competing has the right (almost always exercised) of suing; the unorganized workers themselves have no such right of appeal.

The total number of contracts is estimated at 100,000. The great importance of national agreements is illustrated by the facts that fewer than 300 contracts cover almost 400,000 LO members and 42 of these cover almost 300,000 workers. To a great extent, the terms of all agreements in the economy echo those of these 40 to 50 key agreements. The most important single agreement is that of the iron and metal workers, which is influential in setting patterns and covers 38,000 workers.

In regard to wages, the national agreements often specify minimum scales, leaving the actual wage to local determination, though specific rates or piece-rate schedules are sometimes specified for the entire industry. Cost-of-living clauses are generally included.

The basic agreement between the NAF and LO was first drawn up in 1935 and has been amended several times since; it forms the first section of each contract signed by affiliates of the two federations. Its provisions concern mutual recognition, no strike during the term of the agreement, the role of the shop steward, and other general topics.

### *Collective bargaining and disputes legislation*

The Labor Disputes Act has been the piece of legislation regulating industrial disputes since 1915. It makes the common distinction between disputes of "right" and disputes of "interest." Disputes of right cannot be settled by strike, but must be referred to labor courts whose decisions are final. Disputes of interest are submitted to Government mediation but may become the basis for a strike if not settled.

Contracts are interpreted as strictly binding on the organizations which conclude them and they must be fulfilled, even by parties who leave the signing organization during the term of the contract.

The importance of mediation in settling disputes of interest is illustrated by the fact that in the first half of 1956 contracts involving 79,000 workers were signed without the use of mediation while 91,000 had their disputes settled by mediation.

Immediately after the war, wage boards were established to form a system of compulsory arbitration as an alternative to strikes as an ultimate means of settling disputes over contracts. This mechanism was gradually altered to permit freer expression of conflict and finally abandoned in 1952. Since that time, compulsory arbitration has been used only in a small number of cases.

### *Government wage policy*

As has been noted, close informal ties exist between the LO and the labor policy. This relationship molds LO policies along lines desirable to the labor government and correspondingly reduces the need for formal Government intervention in the form of wage policy. The prime goal of postwar policy has been stabilization and this has been implemented mainly by calls for wage restraint, which have been mostly supported by the LO (though it has not always been able to restrain its member organizations or to prevent "wage drift").

Prior to 1952 the wage boards were used as the means of restraining wage increases. No direct controls were employed (except for a brief period in 1947), but, even at this time, the responsibility for control was left in the hands of the central organizations of workers and employers.

### *Price control*

Extensive controls over prices and rents existed throughout the late forties and into the fifties. In 1954 a law came into effect which permitted the Government to regulate prices and competitive practices whenever it considered this to be in the public interest. With the introduction of this possibility of general price control, many of the specific controls were removed, accompanied by marked upward price movements. Since that time prices, especially those like food prices which figure prominently in the cost of living, have been generally controlled, with their upward movement coordinated with that of wages. Essentially, the entire price-wage level is determined by bargaining among the major economic interest groups. Most specific prices, however, are free.

### *Import and exchange controls*

Because of the extreme openness of the economy, stringent import licensing and exchange control had to be employed in the early postwar years, both to limit the volume of imports and to control their composition. Subsequent improvements have brought forth a gradual slackening of these controls; at present moderate import controls exist.

### *Price supports and subsidies*

Subsidies were a key part of the control system in the early postwar years. Food in particular was subsidized so as to prevent rises in the cost-of-living index, which would have become the basis for wage demands. Beginning in 1950 the amounts of these subsidies were reduced. Once again in 1953, however, an increase in the subsidy on milk was used as an anti-inflationary measure; a similar step was taken in 1955. Today subsidies remain fairly extensive, especially in agriculture.

### *Investment controls*

One of the main goals of policy has been to stimulate investment and economic growth; in the full employment postwar economy of Norway, however, it has repeatedly been necessary to limit investment to combat inflation. Comprehensive control over building through a system of building permits and (in the early years) allocation of construction materials has been an important part of

the anti-inflationary program; at the same time, though, the Government has been making loans of considerable magnitude to finance housing construction. In the years of the fifties building controls have gradually lessened in their importance as an instrument of policy.

#### *Profits taxation and dividend limitation*

Corporate taxation has been tailored mainly to the desire for a high level of investment in recent years. Depreciation policy has been used as encouragement here, with its impact being reduced when necessary for countercyclical purposes. The Norwegian Price Act of 1953 empowers the Government to regulate profit levels by industry to correspond with the desired level of investment in the industry. In part this is done through selective price control. Another device is the limitation of dividend payments to 6 percent on capital holdings, except in special cases where exemption is granted. The limitation is intended to encourage internal finance. In the cases where there is a need to attract with outside funds, the dividend limitation is waived; in the fiscal year 1955-56 firms not subject to the limitation paid an average dividend of 11 percent.

### SWEDEN

#### *Unions*

There are two union federations: the Confederation of Swedish Trade Unions (LO), composed mainly of manual laborers, and the Central Organization of Salaried Employees (TCO). In 1950, the LO had 1.3 million members and the TCO had 272,000. Sixty-five percent of the 2.4 million labor force has been organized, including over 80 percent of the industrial manual laborers.

The LO is made up of 44 national unions, most of which are organized on an industrial basis, and 328 local central councils. It is a stronger organization than its formal powers over its affiliates would seem to indicate. Member unions may not involve more than 3 percent of their membership in a strike without LO approval, but the LO cannot expel a member union for an unauthorized strike (it may, however, cut off strike benefits). The LO supervises the policies of affiliated unions and attempts to harmonize them and encourage "solidarity," a prime union goal. All member unions of the LO have absolute power vested in their executive councils to call strikes and sign agreements and membership votes on these matters are advisory only. A close relationship exists between the LO and the Social Democratic Party, though feeling for the party within the LO is not unanimous (as witnessed by the failure of a resolution that all local unions must affiliate with the party).

The TCO is less centralized than the LO and its members bargain independently. Strike funds are generally collected at the national union rather than the federation level. The TCO is politically neutral, though some of its leading figures are prominent Social Democrats. In 1949 36 percent of its membership was employed in the public sector. It frequently cooperates with the LO, often holding joint conferences with it and the Government. Organization of salaried employees has been greatly stimulated in recent years by a desire to maintain traditional differentials over manual workers.

#### *Employers' associations*

The Swedish Employers' Association (SAF) is composed of 43 associations of employers organized along industry or handicraft lines. At the end of 1954 the firms affiliated with the SAF employed 597,000 wage earners and 155,600 salaried employees. Some 30 associations (centered in shipping, hotels, and restaurants, commerce, agriculture, and forestry), employing 350,000 persons, remain outside the SAF, but generally follow its lead.

The industrial associations maintain strict discipline among member firms, requiring all to act together in bargaining and strikes. The SAF pays strike benefits to member firms on the basis of employment. No association may conclude an agreement without SAF approval and fines may be levied if this provision is violated (though it has never been necessary to do so because the influence of the SAF is brought to bear during bargaining and the end result usually accords with its views). The great power centralized in the hands of the SAF has been one reason for the centralized development of the LO.

#### *Collective bargaining*

The important negotiations take place on an industry basis, with the LO and the SAF representatives present to aid their respective member organizations in obtaining certain standard provisions. The various industry negotiations take

place more or less simultaneously and once the first important agreement is signed (usually that of the engineering industry) the pattern is set and other contracts are concluded in rapid succession. Use is often made of the Government mediation service, but arbitration is never used in negotiations. The negotiations of the salaried employees (in both private and public employment) generally follow those of the LO and usually take place at the firm level. Agricultural prices are then adjusted by the Government in the light of the recent wage increases. Collective bargaining thus encompasses nearly the whole of the economy.

Solidarity in both the LO and SAF has expressed itself in attempts to hold back wage increases in the most prosperous firms and industries (the LO wants to do this to benefit the most poorly paid workers in the economy and the SAF wants to minimize wage pressures). Since the war, this policy has resulted in substantial "wage drift" above contractual rates.

Both the LO and the SAF are acutely conscious of the effects of their actions on the economy (because of the high degree of economic literacy, the smallness of the country, etc.). LO wage demands have been greatly restrained by its close relationship with the Social Democratic Party, which has been in power, either alone or as the dominant member of a coalition, continuously since 1932 (though this has not prevented wage increases considerably larger than those recommended by the Government from being negotiated at times).

The LO and SAF sometimes sign basic agreements themselves, usually on particular items. Such an occurrence took place in 1956, when the two, along with the TCO, agreed to a 4-percent wage increase to be effective virtually throughout the economy. A 1938 basic agreement established a labor market board, a bipartite group which arbitrates disputes over individual layoffs and dismissals. A basic agreement in 1946 established enterprise councils, which provide employee representation in immediate plant matters. In 1957, a 2-year wage agreement was reached between the LO and the SAF which led to increased wage standardization as the LO decreased variations among the policies of its constituent unions.

Local unions handle grievances, discuss plant problems via the enterprise council, negotiate on piece rates (which are extremely prevalent), and undertake educational and local political activities.

Because many items which are included in collective bargaining in other countries are regulated by law in Sweden, bargaining there has tended to center strongly on the issue of wages.

### *Contracts*

Though the majority of agreements are still local in character, over 70 percent of LO members are covered by the relatively small number of national contracts, which are amplified at the local level.

Union security clauses are forbidden by the rules of the SAF and therefore do not appear in any agreements signed by its affiliates. They have been negotiated in some cases by firms and associations not members of the SAF. The issue has not been a great point of controversy because of the SAF's unquestioning recognition of the labor movement.

Contracts automatically apply to all workers, organized or not, employed by the firm that negotiates them.

Practically all national agreements are of 1 year's duration and are timed so as to expire simultaneously. Cost-of-living clauses have not been included in contracts because the annual and centralized nature of bargaining has assured that there will be compensation for increased living costs.

### *Collective bargaining and disputes legislation*

Disputes legislation distinguishes between "conflicts of interests" in discussing or renewing contracts and "disputes over rights" in interpreting existing agreements. In the former case, a work stoppage must be preceded by 7 days by notice given both to the other party and to the Government conciliation service; conciliation may also be had by agreement of the parties. Disputes over rights may not legally lead to a work stoppage, but must, if not settled by direct negotiation between the parties (and, if necessary, their central associations), be referred to a labor court, which can give a compulsory and final decision, as well as award damages.

There are laws on hours of work, vacations, sickness insurance, accident prevention, etc.; at least their minimum standards must be included in all contracts.

*Government wage policy*

The nature of collective bargaining institutions in Sweden made it unnecessary for the Government to adopt wage regulation by law, either during World War II or after. During the war, wage increases were voluntarily negotiated in relation to rises in living costs and compensated workers for only a fraction of the rise. Strong upward adjustments took place in 1946 and 1947 in union attempts to recover the loss in real wages. Then, 1948-50, a fairly effective wage freeze was maintained; this was followed by a "wage explosion" of increases in 1951. The LO called for more restraint in 1953 and 1954 and got it, but at the price of another explosion in 1955. Through all of this the functions of Government wage policy were exercised mainly by the LO; when that policy failed, it was mainly a matter of the national unions and their members opposing both the LO and the Government.

Government intervention into wage determination also take place through mediation of negotiations (a common occurrence), one of the purposes of which is to shape individual agreements along nationally desirable lines. This is less important in years when a basic agreement is signed.

There is no legal minimum wage.

*Employment policy*

Because of the considerable labor shortages since the war, various measures have been taken to aid the movement of workers to labor scarcity areas. Government grants have been given for the traveling and moving expenses of workers. Training schemes have been developed for scarcity occupations in the more important industries. The housing shortage has, however, done much to frustrate efforts to stimulate labor mobility.

*Price control*

Price control has been the rule since 1942, with the price control board establishing maximum prices for all major commodities. Prices and wages are controlled simultaneously and "stopped" or raised together (agricultural prices in particular being kept closely aligned with wages). Far from abolishing price control after the war, the system was actually strengthened in 1946 as world prices rose.

*Import and exchange controls*

When world raw materials prices became inflated in 1950-51 export duties were placed on some grades of timber, pulp, and paper. This policy was intended to remove some of the inflationary effect of the immense profits in the industry and also increase supplies and reduce prices of forestry products internally.

Strict controls over both imports and foreign exchange were maintained in the early postwar years, but later imports were liberalized considerably in advance of OEEC-prescribed levels. The liberal import policy has aimed at (1) promoting exports, and (2) reducing internal costs. Dollar trade, however, has continued to be a problem.

*Monopoly regulation*

Prior to 1953 the power of the Government to control monopolistic practices was limited to its ability to investigate and publicize them. In 1946 a law was passed requiring registration of all restrictive agreements. The public attitude has been that these practices are not bad of themselves, but only if abused. In 1953 a somewhat stronger law was passed; it prohibits retail price maintenance and certain kinds of price quotation cartels and also establishes a business freedom council, which is to investigate and try to remove harmful practices by negotiation.

*Price supports and subsidies*

Residential construction has been subsidized throughout the postwar period, the object being to hold increases in rent to a bare minimum. Agriculture is also subsidized; this, along with variations in controlled farm prices, has been used by the Government to maintain farm incomes.

*Investment controls*

Tax policy has been varied according to the strength of the inflationary pressures at work in the economy. It has generally favored investment strongly (see below) but in times of inflationary crisis has limited it severely. Thus, a 12-percent investment duty was first imposed in 1952, abolished in 1954, reintroduced in 1955, and eliminated again in 1957.

Building controls have been an important part of anti-inflationary policy. The issuance of building permits (which are required for most types of building construction) has been varied countercyclically. Control over investment credits has also been used to control investment.

#### *Profits taxes and dividend limitations*

The general framework of profits taxation has been proinvestment. This has been expressed primarily in special depreciation provisions. In the past, firms were allowed to write off machinery and equipment at their discretion, as long as the method of depreciation for tax purposes was the same one used in the books of the firm. In 1955 this was limited to 30 percent in each of the first 2 years and 20 percent thereafter, but when business activity slackened late in 1957 this provision was liberalized again.

Up to 40 percent of net profits may be allocated to investment equalization funds; the amount so allocated is deductible from taxable profits. The funds are placed in a non-interest-bearing account in the Riksbank. They may be deducted at the rate of 30 percent per year after 5 years, but only with the consent of the labor market board, which decides whether the investment is desirable in the light of its productiveness and the employment conditions prevalent at the time. Use of the funds without permission makes them taxable and also liable to a 10-percent penalty tax.

A tax on the excess profits (i.e., more than 40 percent above the 1948-49 level) of forest owners and all businesses made a brief appearance in 1951. By 1952 a decline was underway and many exemptions from the tax were granted.

#### *Nationalization*

Government policy has not been strongly in favor of nationalization, except in cases where a monopoly dominates an industry. The Government owns the transportation and communications facilities, the tobacco and alcohol industries, and 20 percent of the Nation's forest area. It has some holdings in mines, steel, sawmills, electric power, and oil, but only 5 percent of the labor force is Government employed and 95 percent of industrial capacity is privately owned and controlled.

In 1953, 351,000 persons were in Government administration and another 262,000 were in industrial and commercial undertakings in the public sector. Together, these accounted for 14.4 percent of the economically active population.

### UNITED KINGDOM

#### *Unions*

The central organization is the Trades Union Congress (TUC). In October 1955 it contained 183 affiliated bodies (some of which are Federal bodies, including a number of unions) and had a total paid-up membership of 8.1 million. Some 13 percent of the total union membership belongs to unions not affiliated with the TUC, but about a third of these unions are affiliated with bodies which are in turn affiliated with the TUC. Out of the estimated total civilian employment of 21.7 million in mid-1954, about 43 percent were union members.

Union organization is complex and often overlapping. At the end of 1954, 674 unions existed, 372 of which have fewer than a thousand members. There has been a trend toward amalgamation during the 20th century, but many of the old individual craft unions remain. Some have formed multiple-craft unions and a few have admitted unskilled workers. The giant Transport and General Workers' Union and the National Union of General and Municipal Workers together cast over a quarter of the votes at TUC conventions. Any group of workers may form a union and over a dozen organizations may be represented in a single firm.

Despite this disorganization, the TUC generally speaks for labor. The legal powers of the TUC over members are slight. It has, however, considerable moral weight and has strengthened this through Government participation in economic affairs. The TUC can only advise member unions on collective bargaining and strikes and must support them in the event of a strike or lockout.

Union organization is unevenly spread through the economy, with coal mining, transportation, and shipping being more than 80 percent organized and services and distribution about 20 percent. The effect of unions on wage determination, though, is strong in almost all industries.

While collective bargaining remains the prime function of the labor movement, its political activity and interest is, of course, great. In 1950, labor was represented on some 60 bodies and committees which advise the Government.

British unions have neither tidy jurisdictions nor exclusive bargaining rights. All the unions in a given area affiliate into larger groups, both for bargaining and other purposes.

#### *Employers' associations*

Employers are organized along two lines. The respective central organizations are the Federation of British Industries, which deals with commercial and economic questions, and the British Employers' Confederation, which is involved with labor matters. There are some 1,800 employers' organizations, but only 63 of them are represented in the confederation and are therefore important in collective bargaining. Formally the confederation is organized much like the TUC and has no real power over its members; its actual role in collective bargaining is less than that of the TUC and it never takes part in negotiations or disputes.

#### *Collective bargaining*

The pattern of bargaining varies among industries, but generally it is conducted on an industrywide basis between the unions in the industry (all unions having significant membership in the area being represented) and the employers' association or public authority. Usually (though not in engineering, shipbuilding, or most of the poorly organized industries) there is a standing joint body with a written constitution in which bargaining takes place. Where there is no standing body, meetings take place at given intervals or at the request of either party. While bargaining is industrywide in this sense, it is not in the sense that separate contracts are signed for manual and nonmanual workers and the pattern of bargaining does not conform to the generally recognized outlines of an industry. Even where there is a joint body, unions may bargain separately at times with individual employers on some issues. Also, negotiations on such matters as hours and holidays are often conducted on a wider basis than those on wages.

The bindingness of the industrywide agreement also varies. In some cases all is determined by the central agreement and in others regional and local deviations are permitted; in others, only minimum rates are set nationally.

Conciliation and arbitration are often used in disputes, whether over contract interpretations or negotiations (there is no clear distinction between these in Britain). First a strong attempt is made to compromise the issue, then conciliation, and finally arbitration are used often in an attempt to reach a settlement according to previously agreed-upon rules. Local disputes are almost always handled by a prearranged procedure with the agreement that there will be no work stoppage until the procedure has been exhausted; arbitration is used much less here than in national negotiations.

The indefinite duration of contracts reduces the importance of "rounds" of wage increases and pattern bargains. The Amalgamated Engineering Union, because of its size, has been the nearest thing to a wage leader since the war (also because it is widely dispersed geographically and has been relatively prosperous). The effects of its bargains on other negotiations are limited, though.

#### *Contracts*

The great majority of contracts do not run for any fixed term, but remain in force until one party gives a termination notice. Contracts are signed at works, district or local, and national levels. Their coverage varies widely occupationally, as well, and may relate to a single craft, several crafts, or all manual workers in an industry. The contents of contracts also vary considerably. Many unwritten practices are considered subject to collective bargaining as well as subjects covered in written agreements. Wages and terms of employment are the most important and sometimes the only subjects of written contracts, while the physical conditions of labor are more often regulated by law than by contract. Union security clauses are seldom written into agreements, but unwritten agreement on the subject is common; the same is true of the seniority rule in hiring and layoffs.

#### *Collective bargaining and disputes legislation*

During the war all employers were required to meet rates and conditions bargained or arbitrated in their industries and could be sued for failing to do so. A national arbitration tribunal settled all disputes that could not be solved otherwise and strikes were prohibited. In 1951 this law was succeeded by one setting up an industrial disputes tribunal. Under this law, unsettled disputes

may be conciliated by the Minister of Labor and National Service and the parties urged to use voluntary arbitration. When all else fails, he can refer the case to the tribunal, whose award becomes a compulsory part of the contract. Strikes are no longer forbidden.

#### *Government wage policy*

Minimum wages have been set since 1909 by wage councils in particular industries. These tend to blend aspects of collective bargaining into their activities, especially in industries where other forms of collective bargaining are weak. The boards are bipartite. They are abolished and succeeded by true collective bargaining whenever a majority of workers and employers in an industry decide that statutory regulation is no longer necessary.

Agricultural wages are set by tripartite agricultural wages boards. They are linked closely with prices of agricultural commodities, which are supported by the Government on a cost-plus basis.

Where collective bargaining does not cover an entire industry, the Government has often inserted "fair wage" clauses in purchase contracts. These require all Government contractors to meet bargained rates in their industries.

In nationalized industry, firms are managed by quasi-autonomous public corporations (which are ultimately responsible to Parliament). Collective bargaining had in most cases been long established here and nationalization has made little difference. Its main effects have been a tendency toward centralized bargaining and some elimination of interplant wage differentials.

The most successful Government plea for wage restraint was that of the Labor government in 1948-50. Even then there was not a complete wage freeze, though wages did lag rises in living costs. Considerable wage increases in 1950-51 followed the period of restraint.

#### *Employment policy*

A special problem since the war has been a shortage of labor for coal mines, arising from full employment and a general dislike of work in the mines. An effort has been made to attract foreign miners and some progress has been made, though there has been union opposition and the program seems to have been on a relatively small scale.

#### *Price control*

In 1948, while production and allocation controls were being relaxed, price control was tightened up and a price freeze was instituted at 1948 levels; this covered a wide range of goods, some of which had not been effectively controlled before. L loosening of this control has come in the fifties. Rents were also tightly controlled. Pressure for rises in rents developed and finally in 1954 the Housing Repairs and Rents Act was passed, permitting increases conditional upon the performance of repair work by landlords.

#### *Imports and exchange controls*

There was some slight relaxation of import restriction in the late forties, but substantial new controls were introduced in late 1951 and tightened in the spring of 1952. New relaxation began in the spring of 1953, when the free list was lengthened and some quotas were increased. With continued favorable conditions, more liberalization took place and exchange controls also began to be relaxed as a move toward the avowed goal of convertibility.

#### *Material allocation*

During the war the controlled allocation of industrial materials was operated in conjunction with manpower controls. The latter were removed immediately after the war, but material allocation (as well as most other controls) continued for some time afterward. Controls over nonferrous metals were dropped in 1945 when the demand for war production ended. Forest products, steel, cotton, and other goods continued to be allocated. In 1950 most kinds of steel were freed (though allocation was reintroduced in 1952 and removed in 1953).

In 1948 most of the wartime production controls over miscellaneous consumer goods were ended. Shortages of wood and fibers led to the retention of controls over furniture and some textiles into the fifties.

#### *Monopoly regulation*

Before 1948, though it had public utilities laws and nationalization provisions, the United Kingdom did not have a law relating to monopolies in general and the old common-law doctrines were no longer effective. In 1948 the Monopolies and Restrictive Practices Act set up a commission to investigate cases reported

to it by the board of trade. Action could be taken under this act only through special action by Parliament in each individual case. In 1956 a stronger law was enacted; it outlaws resale price maintenance agreements and judges other restrictive practices on the grounds of their consistency with the public interest (putting the burden of proof that the public interest is not violated on the participants). The law also includes compulsory registration and a special prosecution and court mechanism.

#### *Price supports and subsidies*

Agricultural prices have been subject to continuous support. They have been maintained on a cost-plus basis, all rises in agricultural wages or other cost being the basis for price increases. A large low-cost housing program has been subsidized in an attempt to make up war losses (at the same time as investment in building has been controlled). There has also been subsidized industrial construction in the development areas singled out by the program for postwar construction and industrial relocation.

An attempt was made in 1954 to introduce more flexibility into the support program for meats and cereals. The system was changed to one of "deficiency payments," with the market being left free, but farmers being compensated if their average realized price falls below the guaranteed minimum standard.

#### *Investment controls*

No direct attempt has been made to regulate investment in industrial plant and equipment (though the Government did enter into "gentleman's agreements" with engineering firms on the percentage of their output that would go into exports). Investment in building was, however, subject to extensive control. The wartime system of licensing was continued and, during the first 5 postwar years, Government allocations of steel and timber also had to be obtained. In the late forties the Government channeled resources into its low-cost housing and industrial relocation construction programs. The system of building licensing was greatly relaxed in 1949, though it continued into the midfifties.

#### *Profits taxation and dividend limitation*

Depreciation policy has been varied frequently. In 1954 an investment allowance in addition to normal depreciation was granted; it was removed in 1956 when it, along with other expansionary measures, generated an excess level of demand. With the coming of the 1957-58 recession, depreciation provisions were liberalized again.

Tax policy has favored investment over consumption. A purchase tax exists, its rate varying with the type of good involved. Until 1958 a surtax had to be paid by corporations on dividend payments. The current tax rate on profits is 52.5 percent, but this is considerably alleviated by liberal depreciation allowances. The declining balances method of depreciation is permissible. At present, initial depreciation allowances of 30 percent on machinery and equipment are allowed (they have in the past been as high as 40 percent); the 10- to 20-percent investment allowance in addition to depreciation is no longer in effect.

#### *Nationalization*

Government, Central and local, employs some 3.1 million persons in administration and public services. In addition, about 2.1 million more are employed in nationalized enterprises of an industrial or commercial nature: electricity, gas, coal mining, transportation, etc. The public sector accounts for 22 percent of civilian employment.

