WAGES, PRICES, AND PROFITS*

A. General Discussion


Emphasizes that both wages and profits have two-fold roles: wages as a cost and as a source of demand; profits as a source of large savings and as a stimulus to capital outlays. A balance of the opposite aspects of both wages and profits is necessary to maximum employment. Discusses the problem of maintaining a constant price level when productivity increases are unequal among industries.


In an examination of proposed standards for wage-fixing, points to variable factors, among them: the varying effect of wage changes on cost; differences in the character of the product market which affect the extent to which wage adjustments may be translated into price adjustments and the effects of such price changes on the volume of output; and the rate of return to which the producer is presumably entitled.


Emphasizes that the effects of a general wage increase upon the profits of a particular firm or upon particular prices cannot be predicted; wages and prices cannot be treated in terms of general over-all averages; all wages cannot be raised by some given percentage without affecting prices or affecting them only to a negligible extent.


Points out that although wages, prices, and profits are interrelated, they do not always move in the same direction at the same time. Questions that there is any particular period in which their relationship was so satisfactory that that period should be accepted as a standard or

* Items from this list should be ordered directly from the publisher. Addresses are given in connection with each reference.
base. Profits, wages, and prices are merely tools for the performance of economic functions; whether they are right depends upon the goals of the economy.


Focuses upon the possibility of wage increases without price increases and finds the answer in increased efficiency in production. Analyzes what happens when efficiency gains are (1) retained as profits, (2) absorbed in wage increases, or (3) distributed through price decreases; favors the last mentioned as a policy.


Finds that increasingly wages have become a determinant of prices rather than determined by them. Discusses the conditions under which changes in wages affect prices more through demand than through cost and the conditions under which the effect through cost is greater. A rise in prices relative to wages tends to bring about further price increases through increased profits and investment, until the increase in investment-seeking funds catches up with investment opportunities. When profits are not excessive as tested by their ability to attract venture capital, further wage increases will tend to cause price increases or a reduction in the rate of capital formation.

University of California, Institute of Industrial Relations. *Wages, prices and the national welfare*; addresses at a conference conducted on the Berkeley and Los Angeles campuses of the University of California, March 15-17, 1948. Berkeley 4, Calif. 1948. Especially, "Perspectives on the wage-price problem" by Alvin H. Hansen, pp. 1-8, and "Can wages be left to collective bargaining?" by George W. Taylor, pp. 32-47. $1.00.

Professor Hansen points out that wages have increased over long periods without price increases because of increased productivity per worker. In war periods wages have increased more than worker productivity, and these increases have been made the basis of further price increases. Inflation and high profits necessarily go together; under these circumstances higher wages will not cut profits but will only feed the inflation. Productivity gains are more likely to be diffused through increased money wages than through lowered prices because of the pressure of collective bargaining.

Professor Taylor's analysis stresses the differences between the positions of the low-cost and the high-cost producers. When demand is high, a wage increase that the low-cost producers could absorb without a price increase is passed on by all in price increases, thus increasing still more the profits of this group. But in less exceptional times the poorer profit position of the higher-cost producers makes it im-
possible to have a uniform standard of wages for an industry that is high; unless there is flexibility some producers will be forced out.


Holds that a considerable increase in wages over the increase in man-hour output must come in large part out of an increase in prices; it cannot come out of profits. It is to the advantage of the workers that the high profits of an exceptional time be invested in improved machinery and equipment.

B. Analyses and Arguments for 1947, 1948, 1949


Asserts that profits have reached extortionate levels with prices soaring above wages. Increases in wages can be given and still leave profits at high levels; such wage increases are necessary to the stability of the economy.


The annual economic review (140 pp.), prepared by the Council of Economic Advisers for the President in accordance with the Employment Act of 1946, contains a section on prices (including consumers’ prices), wages, and profits (pp. 4-10) presenting a factual summary, with charts, of the developments during the year under each of these headings; this is supplemented by statistical tables in the appendix.


Cites figures to support conclusion that since the end of the war wage costs have declined in proportion to value produced while profits have risen; in nearly every industry prices have been increased more than enough to cover wage increases. Advocates cooperation of management and unions to cut costs so that wage increases can be given without increasing prices.

Attacks profit figures used by the CIO, also the base periods chosen by the CIO for comparisons as to wages and profits respectively, in its 1948 "wage case."


The original Nathan report. Makes use of a comparison of real wages in January, 1945 and October, 1946 and of profits in 1926-1939 and in 1947 (estimated) to support the conclusion that a general wage increase without an increase in prices would be possible and justifiable, and in the national interest as well.


An analysis similar to that for 1947, with conclusions as to wage and price policies for 1949 and a suggested program for business and the government as well as for labor. Contains charts and tables. Favors wage increases to restore and maintain buying power rather than reliance upon "creeping price declines." Finds that corporate profits as a whole are still high enough to permit wage increases without price increases, but some companies and industries can afford greater increases than others, and some few cannot afford any. Consideration should be given to profit conditions at full employment rather than under more depressed circumstances; large liquid reserves should also be considered and not merely current profits.


Summarizes the original Nathan report and criticisms of it by George Terborgh in Machinery and Allied Products Institute Bulletin No. 1965 and by Ralph W. Robey in "The facts versus the Nathan report," a pamphlet published by the National Association of Manufacturers. The author also presents his own critical comments on the method and conclusions of the report.


A statement by Herman H. Steinkraus, President (5 pp.), and a report prepared by the Research Department, July, 1940. Both the statement and the report attack the conclusions of the 1949 Nathan report and present their own recommendations. The report also dissents from the Nathan figures for real wages and corporate profits.