ECONOMIC NOTES

THE PRODUCTIVITY WAGE INCREASE

On June 1st, over one million members of the United Auto Workers (CIO) will receive a four cents an hour "annual improvement" increase. This addition to their basic hourly rate has been given to them since 1950 under their current five-year contracts — save in the case of General Motors which signed for such an increase as early as 1948. It is supposed to represent the annual increase in labor's productivity, as well as enable labor to share in this increase.*

In its current negotiations with General Motors for a re-opening of the contract, the UAW is demanding that this annual improvement factor be raised from four cents an hour to five cents. This fact, plus the fact that this type of wage increase is rapidly being extended to other industries to the point where it could become a national wage pattern, has brought the annual improvement wage increase very much into the public limelight once again.

When the principle that workers should get wage increases as their productivity increased was first written into contracts in 1948, it was hailed as a tremendous "progressive" step, and in certain quarters as a "revolutionary" measure in labor relations. Whether this is so will be examined under our economic analysis of this wage policy. Before this, a few general observations about the productivity increase which thus far seem to have escaped notice.

PRINCIPLE NOT NEW

The underlying principle incorporated in the annual improvement wage — that the more a worker produces, the more he should receive in wages — is not new. It is found in piece work, where the worker receives a base hourly pay, and so much for each part or unit turned out beyond the minimum required by the base pay. This piece work is even extended to groups of workers or to an entire plant, when it is impossible for a single worker to be timed for his production because of the nature of the commodity produced.

The productivity wage increase is also found embodied in bonus or incentive, and profit-sharing plans. Under these disguised forms of piece work, the worker is made to feel part of the company, in partnership with it for increased production in order to secure higher pay. For the reason that such plans tied the worker to the company — there were other reasons, such as the competition between worker and worker, and the constant lessening of time on piece work to cut the rates, etc. — the unions, in its organizing days, opposed such plans as **company-inspired.**

Now that the unions are well organized, with large treasuries, a tremendous officialdom, and a certain amount of stability has been introduced through long-term contracts, they are adopting policies which they once opposed. Similarly, the unions were against the guaranteed annual wage, and attacked it as a device to prevent unionization. Now the guaranteed annual wage is the prime objective of the United Auto Workers and other CIO unions. If the companies, in pre-union days, had issued such propaganda as "the more you produce for the company, the more you earn for yourselves, "the unions would have urged the workers to turn their backs on it. Now, by tying wages to productivity, the unions and the companies become co-agitators of the same propaganda.

NATIONAL LEVEL

The novel aspect of this annual improvement factor is that instead of productivity being figured on an individual, a plant, or even a corporation level, it is calculated on a national level. That is, in order to obtain figures on productivity, the entire "real gross private national product" is placed along side of the total man-hours worked in private economy.** (Productivity has also been estimated to include the governmental sector of the economy, but for our purposes here, need not be included.)

No doubt exists but that each year the workers through increase of their own skills, through improved technological methods, and expanded capacity have been increasing their output per man-hours worked.

For the entire period from 1933 to 1950, real productivity per man hour increased nearly 70%, or at the rate of 3⅛% compounded annually. (WPEE, p. 39). However, inasmuch as the 1937 recession and the post-war readjustments of 1946 and 1947 are included in this period, this does not give an accurate picture of how fast productivity has been increasing during recent years. In 1950 the productivity rise was 6%, and the 1947-8-9 average was 4%. These are the latest figures available, but indications are that 1951 and 1952 have seen a continuation of this increase in productivity.

THE ECONOMICS

Turning now to the economics of the matter, the first point which strikes our attention is that workers are not being given a wage increase in relation to their total output. If in 1950 the rate of increase nationally was 6%, then on the basis of an average hourly rate of $2.00 an hour in auto, the increase should have been 12 cents an hour, and not four cents. For certain industries it is even higher: Rayon and other Synthetic Fibers 19%, Paper and Pulp 11%, Railroads 14%, etc. (1949-1950 percentage change, WPEE, p. 41).

The UAW in demanding 5 cents instead of 4 cents an hour is basing its case on an increase from 2 to 2½%, and is thus short of the CIO's own estimates on the matter.

THE LIMITATIONS

Under his annual "improvement" increase, strict limitations exist for the workers, but not for the capitalists. Let us see why. If the workers increase the national output 2 or 2½%, this means that the workers' wage will be raised four or five cents an hour, but, this gives no indication of how much the companies have increased their profits. Recall productivity increase to remain at 2½% the total volume of sales. The increase in profits may be greater than 2 or 2½%, or it may be less.

Now, suppose the rate of productivity increase to remain at 2½% each year. On a forty hour week the worker himself is limited to an increase of $2.00 a week (40 x $.05). But the capitalist expands and increases his production by adding more workers. The rate of productivity remains the same, but the mass of profits to the capitalist increases. The workers' increase is limited to the 2½%, but the capitalists' profits are not limited. They are based on percentage **times** mass. The only way the worker can increase his mass of wages is by working more hours (if the work is available), but a capitalist can increase his profits by adding more workers to the payroll.

The annual improvement factor, like the escalator clause, does not interfere with the profits of the capitalist. On the contrary, it makes it possible for him to increase his

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*A typical UWA contract reads: "The annual improvement factor provided herein recognizes that a continuing improvement in the standard of living of employees depends upon technological progress, better tools, methods, processes and equipment, and **a cooperative attitude on the part of all such parties in such progress.** It further recognizes the principle that to produce more with the same amount of human effort is a sound economic and social objective." (Our emphasis).

Wage Policy in Our Expanding Economy, Congress of Industrial Organizations, Washington. Hereafter referred to as WPEE.